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Legislative Assembly of Ontario

Second Session, 36th Parliament

Assemblée législative de l'Ontario

Deuxième session, 36^e législature

Official Report of Debates (Hansard)

Thursday 7 May 1998

Journal des débats (Hansard)

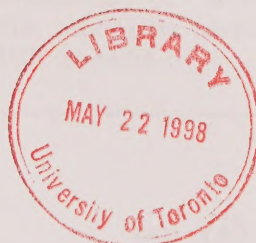
Jeudi 7 mai 1998

Standing committee on
public accounts

Organization

Comité permanent des
comptes publics

Organisation



Chair: Bernard Grandmaître
Clerk: Donna Bryce

Président : Bernard Grandmaître
Greffière : Donna Bryce

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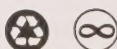
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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON
PUBLIC ACCOUNTSCOMITÉ PERMANENT DES
COMPTES PUBLICS

Thursday 7 May 1998

Jeudi 7 mai 1998

The committee met at 1001 in room 228.

ELECTION OF CHAIR

Clerk of the Committee (Ms Donna Bryce): Good morning. Honourable members, it's my duty to call upon you to elect a Chair. Are there any nominations?

Mr Richard Patten (Ottawa Centre): I'd like to nominate Mr Ben Grandmaître.

Clerk of the Committee: Any further nominations? There being no further nominations, I declare them closed and that Mr Grandmaître be elected Chair.

ELECTION OF VICE-CHAIR

Clerk of the Committee: We'll go on now to the election of Vice-Chair. Are there any nominations?

Mr John Gerretsen (Kingston and The Islands): I'd like to nominate Richard Patten.

Clerk of the Committee: Are there any further nominations? There being none, I declare them closed and that Mr Patten be elected Vice-Chair. Mr Patten, would you like to come up to be the Chair?

The Vice-Chair (Mr Richard Patten): That was a tough battle. My goodness.

APPOINTMENT OF SUBCOMMITTEE

The Vice-Chair: The third item of business is the establishment of the subcommittee for committee business. Is there a mover for the motion to appoint a business subcommittee?

Ms Shelley Martel (Sudbury East): I move that a subcommittee on committee business be appointed to meet from time to time at the call of the Chair, or at the request

of any member thereof, to consider and report to the committee on the business of the committee; that the presence of all members of the subcommittee is necessary to constitute a meeting; and that the subcommittee be composed of the following members: Mr Grandmaître — I had Mr Lalonde, but I'm assuming you want to be on the committee.

The Vice-Chair: Lalonde's fine.

Ms Martel: Okay — Mr Lalonde, Mr Young and myself; and that any member may designate a substitute member on the subcommittee who is of the same recognized party.

The Vice-Chair: Is there any discussion on the motion?

All those in favour? Those opposed? Nobody opposed. I declare that motion carried. Thank you very much.

Any further business?

Mr Gerry Phillips (Scarborough-Agincourt): Not to prolong the meeting, but I have a couple of letters that I've sent to the auditor, and I'm wondering when they may be up for discussion, just so I can plan my schedule.

The Vice-Chair: I might suggest that the subcommittee meet next week and follow up on your request.

Mr Phillips: I appreciate that.

The Vice-Chair: Anything further?

Mr Terence H. Young (Halton Centre): I understand that a former member of Mr Phillips's staff has gone to the Ontario Chamber of Commerce and I just want to make sure that's totally on the up and up. We can discuss it another time, though, I guess.

The Vice-Chair: There being no further issues, I declare the meeting adjourned. We'll reconvene at the call of the Chair.

The committee adjourned at 1003.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chair / Président

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Vice-Chair / Vice-Président

Mr Richard Patten (Ottawa Centre / -Centre L)

Mr Marcel Beaubien (Lambton PC)

Mr Bernard Grandmaître (Ottawa East / -Est L)

Mr Bill Grimmett (Muskoka-Georgian Bay /

Muskoka-Baie-Georgienne PC)

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Mr Morley Kells (Etobicoke-Lakeshore PC)

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Legislative Assembly of Ontario

Second Session, 36th Parliament

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Official Report of Debates (Hansard)

Thursday 4 June 1998

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Jeudi 4 juin 1998

Standing committee on public accounts

1997 Annual Report,
Provincial Auditor:
1996-97 public accounts;
reporting of contingency funds

Comité permanent des comptes publics

Rapport annuel 1997
Vérificateur provincial :
comptes publics
de 1996-1997 ;
fonds de prévoyance



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STANDING COMMITTEE ON
PUBLIC ACCOUNTSCOMITÉ PERMANENT DES
COMPTES PUBLICS

Thursday 4 June 1998

Jeudi 4 juin 1998

*The committee met at 1005 in room 228.*1997 ANNUAL REPORT,
PROVINCIAL AUDITOR

Consideration of 1996-97 public accounts and reporting of contingency funds.

The Vice-Chair (Mr Richard Patten): I'd like to call this meeting to order. Ben is in the House. He has to speak to a bill, but he should be here shortly.

The first item of business is the report of the subcommittee, which you have before you. I could read through it, if you like, or do you want to just peruse it? I'll give you a minute to read through it.

Are there any comments or questions related to the subcommittee report? No. Could I have a mover for it, please?

Mr Jean-Marc Lalonde (Prescott and Russell): I move it.

The Vice-Chair: All in favour? Good.

We can move to the second item.

Mr Erik Peters: Chair, may I just raise a question? It's a technical question regarding items 5 and 6 of the subcommittee report. I have no problem with adopting it, but is there a plan? Are these now adopted motions of the committee as a result of the committee or is there a separate motion required?

Clerk of the Committee (Ms Donna Bryce): This becomes a motion.

Mr Peters: It becomes a motion and therefore my office is instructed under items 5 and 6 to do special assignments under section 17 of the Audit Act.

Clerk of the Committee: Correct.

MINISTRY OF FINANCE

The Vice-Chair: I'll call forward the witnesses from the Ministry of Finance. Mr Colin Andersen — by the way, on the agenda it says acting, but actually he's the assistant deputy minister now; congratulations — Carol Layton, the acting director, fiscal planning branch; and Robert Siddall, the director, controllership branch. Welcome to the committee this morning. Do you have a presentation?

Mr Colin Andersen: Yes. Copies are just being circulated.

The Vice-Chair: Following which, of course, some of the members will probably have some questions for you. Please proceed.

Mr Andersen: First of all, I'd like to thank the committee for the invitation to be here today. I have with me Robert Siddall, the provincial controller, and Carol Layton, the director of the fiscal planning branch.

I'll refer you to the presentation that we've just handed out. It will essentially cover three areas: We'd like to take a brief run through some of the recommendations of the Ontario Financial Review Commission in the area of prudent fiscal planning; then we'd like to talk about how the province has adopted those recommendations in our annual planning and reporting; and finally, to show how some of those results have actually been communicated and reported in the annual public accounts.

If you flip to page 3, as you're probably aware, the government established the Ontario Financial Review Commission in 1995 to review the financial management practices of the government and make recommendations for improvement. Membership included prominent accountants and business men and women in Ontario and it was chaired by Bill Broadhurst of Price Waterhouse. Erik Peters acted as adviser to the commission and played a prominent role in the development of its recommendations. Those recommendations were provided in November 1995 in a report called *Beyond the Numbers*, which I'm sure many of you have seen, and I actually have a copy of it with me today.

The mandate of the commission is outlined on page 4, specifically the parts of the mandate that refer to what we've been asked to come and talk to you about today. What we've got here on slide 4 is actually an excerpt from the OIC that established the OFRC, and I'll just draw your attention to a couple of points.

The commission was mandated to examine the financial management and reporting of the government, including the timeliness and content of its reports. That included all of its reports: the estimates, the provincial budget, the quarterly finances, annual reports for the crown agencies and the public accounts.

It was also specifically asked to look at prudent planning and provide options, with a framework for a medium-term plan and a realistic budget framework for expenditure planning, specifically including the use of contingency provisions. We'll go into more details about the specific recommendations in the areas of economic

assumptions, revenue variations and the like in subsequent slides.

On to page 5 now. The commission provided 55 recommendations in total. The government's progress towards implementing those recommendations was reported in the 1996 budget. There was a fairly lengthy appendix that outlined those. I'll draw your attention to some of the OFRC's overall recommendations, specifically those relating to planning.

The commission believed that its most important recommendations related to prudent planning, both with regard to measuring progress towards appropriate goals, but as well planning that makes allowances for unforeseen events that reduce the risk that the government will fail to meet its debt and deficit targets.

More specifically related to prudent planning, on page 6 you see recommendation 1.1 from the commission:

"That government adopt a prudent planning framework which encourages cautious forecasting and better expenditure planning; monitors results for the purposes of taking any corrective action that is needed; and includes provisions for unexpected changes in its economic outlook, in order to ensure that it meets or exceeds its deficit and debt reduction targets in the most effective and efficient way."

Recommendation 1.7, which is outlined on slide 7, went on to say, "That government's fiscal forecast be biased towards the cautious end of the range of forecasts that are consistent with its economic forecast."

On page 8, building on the overall recommendation that I already alluded to earlier about making allowances for unforeseen events, recommendation 1.8 of the OFRC states:

"That the budget set out a contingency fund exclusively to cushion fiscal targets against the impact of negative unforeseen economic changes." It also says, "Government should apply any part of the fund which has not been spent by year-end to reducing the deficit and debt."

Page 9 gives an excerpt from the 1995 federal budget. In developing its recommendations, the committee heard from the federal Ministry of Finance, and I would draw your attention to the bottom two paragraphs of that page, which outline the federal government's approach and use of a contingency reserve. It has included a reserve in the neighbourhood of \$2.5 billion to \$3 billion in its planning and, again, uses that reserve to cover risks arising from unavoidable inaccuracies in the models and unpredictable events.

The specific point to draw your attention to as well is the sentence there that is in bold: "The contingency reserve is not a source of funding for new policy initiatives."

On to the next page. I would now like to speak to how the recommendations have been implemented in the province's fiscal planning and reporting. In its discussions, the OFRC stressed that cautious forecasts cushion the impact of unexpected changes, helping to limit the risk of increased debt or of disruptive in-year cuts to planned spending.

The 1996 budget specifically contained a \$650-million reserve as part of the caution built into the plan. This was specifically laid out in the budget and was said to "protect the budget plan against unforeseen risks such as unexpected and adverse changes in the economic outlook." The reserve was not used in that fiscal year and contributed directly to over-achievement of the 1996-97 deficit target.

A similar reserve of \$650 million is included in the fiscal plan in every year, and it is important to emphasize that it is available only to protect the plan against unforeseen economic circumstances. If economic growth plays out as forecast, as the budget explicitly states, the reserve is applied to deficit reduction and not to any new spending.

On to page 11: In case you're wondering how the \$650-million figure was determined, basically it accommodates a variance in our revenue forecast equal to the revenue yield from approximately 1.5 points of GDP growth. That's a fairly cautious margin of error, I guess you could say. It provides for a certain cushion.

Alternatively, you could look at that reserve as accommodating the equivalent of an unexpected drop at the time of about 7% of RST, or retail sales tax revenue, or 12% of corporation tax revenue. Obviously, all of those things wouldn't happen simultaneously.

In addition to the \$650-million reserve, the fiscal plan also incorporates regular use of prudent and cautious forecasts in a number of areas, in the revenue and public debt interest, or PDI specifically. Again, that's consistent with the OFRC recommendations.

For the 1996-97 budget, the economic growth projections used in the budget were deliberately set at more cautious than the consensus of the private sector forecasts. Similarly, both the short- and long-term interest rate assumptions used in the budget were more cautious than the average private sector forecast by approximately 100 or so basis points.

Each year this caution is fully disclosed in the budget in the detailed economic outlook paper which is included in the accompanying budget papers or the appendix to the budget. So every year you can look and see exactly how much caution and what that equates to in both percentage terms and dollar terms.

All of this contributed to helping overachieve the 1996 budget target of \$8.2 billion. It was overachieved by about \$1.3 million. So the caution that was in there and continuing good economic growth helped to contribute to that overachievement.

The OFRC also made specific recommendations with regard to the reporting of restructuring charges. I am on to page 13 right now, which outlines recommendation 2.13 of the OFRC. That recommendation states:

"When reporting the impact of restructuring that involves reducing staff, government follow the guidance of the Emerging Issues Committee of the Canadian Institute of Chartered Accountants. In general terms, this would mean accruing and expensing the cost at the time the restructuring decision is made."

In practical terms, this means that costs are to be reflected in the government's fiscal plan and deficit, sometimes before the actual cash payments for things like severance and the like are made.

Over to page 14. To this end the 1996 Ontario budget included a forecast for restructuring charges based on anticipated government restructuring decisions of about \$900 million. This was a best estimate at the time, based on information that was available at that point of the fiscal year, knowing that significant restructuring was being initiated in both the health and the municipal sectors.

At this point, I'll turn it over to Mr Siddall to take you through the details of what was eventually recorded in the 1996-97 public accounts for some of the restructuring items.

1020

Mr Robert Siddall: Thank you, Colin. If you turn to page 15 of our presentation, when we actually came to the end of the year to book the decisions around restructuring, the public accounts for the year 1996-97 included a restructuring accrual of \$2.4 billion.

On the page you will see that this accrual was made up of four major areas of restructuring: \$970 million for hospital restructuring for the decisions that were made during the year related to the hospital restructuring; \$772 million for government decisions involving the restructuring of the municipal sector; \$438 million for employees' severance costs in the OPS related to the restructuring that the government had also made decisions on at that time; and also an accrual of \$250 million for the province's share of the costs of the retirement incentive for teachers, which at that time the government had made a decision to proceed forward on, offering a retirement incentive for the teachers. In the budget this year, this particular item has been reclassified and included in the charge of the final agreement that has been signed with the teachers.

If you go to page 16, again some of how we go about coming up with these accruals, the accruals are determined as the year proceeds and as the government makes its decisions. The accruals represent the best estimate of the cost of these decisions at the time the decisions are made, and they're updated annually, based on the information that we received during the year. The accruals that we made two or three years ago have to be reviewed each year and updated each year, based on any new information we have during the year.

Included in that new information is the cost of the actual cash going out the door, paying off these accruals or these liabilities. In the case of restructuring accruals, the time period of when the cash will actually go out the door is not 30 days after the year-end, but anywhere from one to four years after the year that we set the accrual up.

We also thought today that we would go through and provide the committee members who might be new to the area some discussion about why we moved to PSAAB in the first place, and also we thought we'd go through, or at least present for your review, the 1996-97 public accounts financial statements and annual report. I believe it was

two years ago that Erik Peters took the committee through the 1995-96 annual report, which was the first year we did an annual report, and had a discussion of that, but I don't believe the committee has formally been presented with the public accounts or had the opportunity to talk to the public accounts for 1996-97.

If I go to page 17, prior to 1993-94, the province was following a modified cash basis of accounting. The focus for the government was managing cash flows. There were concerns at that time, voiced by the Provincial Auditor, Erik Peters, about the fact that the cash books could be managed by managing your cash flows and that they didn't reflect the decisions of government.

Taking his concerns and the concerns of others into consideration, the province adopted the recommendations of the Public Sector Accounting and Auditing Board in its 1993-94 financial statements. In terms of what other provinces are doing, most provinces in Canada are now following the majority of the recommendations of the Public Sector Accounting and Auditing Board.

In 1995, the government, concerned with its financial management practices, set up a commission called the Ontario Financial Review Commission, which Colin referred to, and asked them not to look just at the planning aspects but also at the reporting aspects of our financial management practices in the province.

Their recommendations were that the PSAAB accounting basis be used consistently in the government's presentation of its financial information. That included in the budget estimates and Ontario Finances and in the public accounts.

The province is continuing to move towards the adoption of PSAAB. We now have adopted it in the budget and in Ontario Finances and in the public accounts. The estimates, as you know, are still on a modified cash basis, or the appropriation control is still on a modified cash basis of accounting. We continue to look at the issue of moving back to an accrual basis with the introduction of a new financial system for the province.

In terms of the OFRC recommendations on financial reporting on page 18, I referred to the first one. They also recommended that we produce an annual report that puts some narrative around the numbers. The financial statements, as you see, have a lot of discussion in the notes to the financial statements that are written, I would say, for financial analysts and knowledgeable users. The commission felt it was also useful to have a narrative similar to an annual report in the private sector that described the results of operations in the year in terms of description that people would be able to better understand.

They also requested that we move up the public accounts tabling so that it would be more timely to the members of the Legislature and to the public. We have been working towards moving up that deadline over the last couple of years.

In terms of our targets, page 19, this year our target is to have ready for tabling the public accounts by 150 days after the year-end of March 31. It is our intention to continue following the recommendations of the Public

Sector Accounting and Auditing Board in the financial statements this year. The interim number in the Ontario budget for this year is \$5.2 billion and we will continue to release an annual report with the public accounts this year.

In terms of the annual report that I presented to you, the recommendation of the OFRC is on page 20 and it provides a description of the key items that should be in the annual report. I draw your attention to both the annual report and the financial statements, to the fact that both reports include a statement by the Provincial Auditor stating that for the year ended 1996-97 the auditor provided an unqualified opinion on the accounts of the province.

If you look through the annual report, you'll also find, as described on page 21, that there is a section on economic and fiscal highlights, a section on revenues and expenses in the province, and a summary of in-year changes in revenues and expenses for the year under consideration. The OFRC also recommended that we put a budget comparison or a budget column in the financial statements so that users could clearly compare the government's plan against its actual expenditures and revenues.

There's also a section on financing and debt management, and a practice that is adopted in some jurisdictions of providing condensed information instead of the full set of financial statements, referring the user to the full set of financial statements if they would like to look at the detail in the notes, done between the annual report and the financial statements.

1030

The Vice-Chair: Thank you very much. I suggest a rotation of 10 minutes for each caucus.

Mr Gerry Phillips (Scarborough-Agincourt): It's an extremely important matter for Ontario. I compare this to the equivalent of a public company having to report its finances accurately or else it gets delisted. I've always felt that on the basis of the budget, at least in public accounts, people judge how well the province is doing financially. I've got some significant concerns on the way we're reporting things.

Let's start with the restructuring. You say the commission said that when reporting the impact of restructuring that involves reducing staff, the government follows guidance etc.

I see that in 1997-98 the restructuring charges were about \$3.2 billion. Did all that restructuring involve the reduction of staff? Is that the basis on which you booked the restructuring charges?

Mr Andersen: Not necessarily. The recommendation of the commission was to go with the recommendations that were coming out of the Emerging Issues Committee. The one recommendation that was there specifically dealt with restructuring that involved reductions in the number of staff, but the recommendations with regard to reporting of restructuring charges actually go beyond that into the area of what is sometimes loosely referred to as exit costs. Those could include the costs associated with the government transferring responsibilities to another area.

For example, in hospital restructuring, it might also include other costs such as getting out of leases or equipment changes or some minor renovations. It does not involve construction costs per se.

Mr Phillips: But I see you've booked \$828 million for the TTC.

Mr Andersen: That one was specifically involved with the cancellation of an agreement associated with the transfer of responsibilities under local services realignment. It was essentially the province paying off its remaining obligations under that agreement.

You're getting into some of the 1997-98 restructuring charges. The presentation we have made was referring more to the 1996-97, which we were asked to come and talk about. We can certainly talk about some of those other areas as well, if you'd like, but the ones that you are referring to weren't included in the 1996-97 fiscal year.

Mr Phillips: I assume you're here to explain the basis on which you put these things together. This will be our one chance to talk to the financial officials before the Provincial Auditor has to pass opinion on the books.

I have the same question on the school board capital ventures, where you decided to write off \$971 million against 1997-98. Was that part of the Ontario Financial Review Commission's recommendations?

Mr Andersen: They did not make specific recommendations with regard to that particular item, of course, because they were reporting in 1995. You're referring to circumstances that pertain to the 1997-98 fiscal year. We certainly feel that all of the bookings or the expensing that we're doing is quite consistent with the recommendations of PSAAB. The overall motivation around that is that decisions of the government should be booked at the time and fully reflected at the time the decision is made and is more accurately —

Mr Phillips: You can make a decision and then just play games with the books. You can say, "We made the decision, so we'll write the cost off." Doesn't that give you — not you — a government of the day almost an unfettered right to move the numbers around?

Mr Andersen: No, absolutely not. I think these recommendations mean that a government does have to accurately and fully disclose the full extent of decisions at the time it makes those decisions, whereas in the past a decision could be undertaken where some of the impact of that decision might be spread out over a number of years. Under these recommendations and through the use of PSAAB, I believe that the full extent and the full impact of those are more accurately reported to the public so that they can actually see the full nature of those decisions.

The most obvious example to use would be reporting on the full costing of any changes in pensions that are undertaken. Those are more accurately reflected in the year that changes to pension plans are made under PSAAB than they were before under the cash system of accounting, where the full liabilities or the amount of money that was being paid out under those plans might not be seen until 20 or 25 years later, when members of a plan actually were retiring and starting to receive their benefits.

Mr Phillips: That was my next question. I see the teacher pension number in 1997-98 is \$971 million, and then the next year it's \$62 million. I gather that the actual cash outlay is going to be \$1.1 billion, that the taxpayers will actually lay out \$1.1 billion, but we're going to record a \$62-million expenditure on the books.

I have two questions. Does that help the public, when we show a \$971-million expense going to \$62 million, but the taxpayers are actually laying out \$1.1 billion? Is that a more transparent explanation of the expenditures?

Mr Siddall: Neither Colin nor I are experts on the pension area, but in the sense of the accounting, the \$971 million this year represents the agreement that was signed by the teachers and the province that has provided an enhanced pension plan to the teachers. Under public sector accounting, we have to book the cost of this to when a decision is made.

In following up what Colin said, the issue is, from a cash basis, in the old days you could make a decision and you wouldn't actually have to pay it out or reflect it in your books until maybe, in the pension area, five or 10 years later.

Mr Phillips: But am I not right on the numbers, that the province actually is paying over \$1 billion in cash but recording \$62 million on the books?

Mr Siddall: If the committee wants detail, I'd suggest we ask one of our pension people to come over.

Mr Phillips: That may be helpful.

Mr Siddall: The agreement that was signed with the teachers dealt with the fact, as you referred to, that the province continue to make special funding payments to the teachers' pension plan. That is set out in legislation. The agreement, over the next couple of years, has us, as you say, dropping out of that commitment and not making those cash payments of \$1 billion a year; that's part of the agreement. The reason why the number drops down to \$62 million is that, as you know, the pension plan has been very successful in its investments, and its investment activity has covered off its liabilities that have been there for a number of years, and to some extent covers off the liabilities it's creating currently.

Mr Phillips: I realize that. It says \$62 million. When we asked the officials how much cash is actually being paid out by the taxpayers, they told us it's about \$1.1 billion. That's how much cash the province has to put out. But you're recording \$62 million. I'm just trying to get a feeling of, again representing the public, how accurate our finances are right now. Maybe it would be useful to have, if we need them, somebody.

The Vice-Chair: You have one minute, Mr Phillips.

Mr Phillips: Will it come around again?

The Vice-Chair: Yes, it will come around again. Sure.

1040

Mr Andersen: There are a number of items, with regard to the reporting you're talking about, with regard to those numbers. There were some provisions that were made in 1996-97 for part of the teachers' pension deal. There's \$250 million for the early retirement incentive in there. In 1997-98 there are a number of offsetting changes

as well. The plan had some fairly good investment performance, so you'd see that there was a reduction of about \$500 million or so in the expense on that, offset by the \$725-million provision for the enhancements as part of the early retirement incentive.

At the same time, the cash payment you're referring to, it was publicly reported a fair number of times that there's an ongoing cash payment of about \$555 million that is going to end, and that amounted to about \$33 billion over 31 years or so, something like that. That will be coming to an end as part of that plan as well. You'll see that reflected in the cash numbers in the years going forward.

Mr Phillips: But am I right on the \$1 billion?

The Vice-Chair: Sorry, Mr Phillips, your time has passed.

Mr Andersen: For that particular year, but I think we should get some of the other folks over.

The Vice-Chair: Before we move to Ms Martel, you had made an offer. Were you asking for them to appear?

Mr Phillips: I would find that helpful, that we have someone who would give the committee an explanation of why we record \$62 million and the taxpayers actually lay out \$1.1 billion. If that's supposed to represent transparency, I'd just like to have a better explanation of it.

Mr Andersen: Okay. We'll see if someone is available to come over.

Ms Shelley Martel (Sudbury East): On page 14, you outline for the committee that the forecast for the restructuring cost is about \$900 million, or \$900 million for decisions made that involve restructuring costs. Then on page 15 you laid out for us what some of those items included.

So that I understand this more clearly, how much of the money actually ended up flowing, if any, in some cases? If I wanted to make a comparison between the decisions that were being made and the amount attached to that and then how much money flowed, where would I look for that? I'm assuming that would come the next fiscal year, but am I looking for that in the budget, in the fiscal plans, or would it be recorded in both places?

Mr Andersen: There are two areas. The budget, as Rob mentioned, is done on a PSAAB basis, or an accrual method of accounting. The province's printed estimates are done on a cash basis. You could see the PSAAB expenses that are reported each year in the budget. You would eventually see the cash showing up in the printed estimates each year.

We actually have a table we could hand out that shows, for the restructuring and other charges that have been taken to date, up to the 1998-99 fiscal year, essentially how much of the cash has flowed or is planned to flow by the end of this fiscal year. The table is just coming around now, so maybe I'll pause for a second until everybody has it in front of them, and then I'll walk you through the table.

I'll explain what this table does. Down the far left-hand side you'll see the items that over the past four fiscal years, and I'm including 1998-99 in that four, have been reported as restructuring and other charges in the budgets

and the public accounts. They're largely in the areas of health, education and the municipalities.

You'll see that for the 1995-96 year, we reported restructuring charges of \$854 million, largely in the OPS area for severance and the like. Then 1996-97 was the first year that the relatively significant health care restructuring investments started to be reported in the budget, and you'll see that there were reports in both the 1996-97 and 1997-98 years with regard to those. The total amount for the 1996-97 year was about \$2.2 billion, and then in the 1997-98 year again we had some significant health care restructuring investments as well as some significant education restructuring.

If you add those all together, you get in the neighbourhood of \$5 billion or \$6 billion, I suppose. When you look over to the far right, to the two cash flow columns, you'll see that almost \$4 billion of that will flow by the end of this year. So for almost two thirds of the restructuring charges, the cash will actually go out the door following the PSAAB expenses that have been made.

Ms Martel: That piece of paper is coming out of where, the budget?

Mr Andersen: No, it isn't actually printed in the budget. All of the PSAAB numbers are generally there. What we refer to as the B paper, or the fiscal outlook, always has a tabulation of the restructuring charges. This year the B paper, the Ontario fiscal plan, has about a three-page outline of the restructuring charges, and that's on page 27. Then I'll draw your attention to the public accounts documents, some of which you have right in front of you.

Page 12 of the financial statements page in the blue books that you have in front of you has a full page in the notes to the financial statements, and that specifically deals with all the restructuring charges and provides details on those. Similarly, the annual report, which you are also provided a copy of, has a section on restructuring and I would draw your attention to page 14 of that document. So on a PSAAB basis, all those restructuring charges are laid out in quite a bit of detail. Then the public accounts obviously have the audited amounts that end up at the end of the year, and the printed estimates each year also provide the details on those.

The other thing I would draw your attention to is that we also, in the B paper, specifically break out, under the operating expenses for each ministry, the restructuring charges that pertain to the individual ministries. That's a relatively recent innovation in the last year or two. I would draw your attention to table B4, which is on page 54 of the 1998 Ontario Budget, and you'll see that for each ministry broken out on a separate line we have the restructuring charges that pertain to that particular ministry.

We feel we lay out in quite a bit of detail those restructuring charges. You can see the underlying, on-going budgets for the ministries, but as well you can see the restructuring charges, which are largely of a one-time nature. It seems to be fuller disclosure to break them out separately, rather than blend them into the individual ministry lines.

As well, the printed estimates themselves always have, for each ministry, a reconciliation table that reconciles the cash numbers, therefore the estimates, to the PSAAB or accrual numbers that are included in the budget. Quite often that table will explicitly include a reconciliation between the restructuring charges and the cash numbers. For example, in the 1998-99 estimates that were just released a little while ago, in volume 1 there are tables. For example, the Ministry of Health, health care restructuring costs show an explicit line reconciling the hospital costs for the 1998-99 year. That's on page xix. Right at the front of that document there's a whole series of those tables, so you can see them there as well.

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Mr Marcel Beaubien (Lambton): I'd like to stay on the restructuring charges. In your presentation this morning, on page 15 you mention about \$250 million for the teachers' retirement incentive. However, in the budget papers, on page 35 it shows a teachers' pension plan expense of \$226 million. Why is there a \$24-million discrepancy?

Mr Andersen: That is the same issue that Mr Phillips was alluding to. We were going to be bringing some people over. However, I've been told that as it turns out, of the two people who are actually the experts on this, one of them is on vacation and the other one is ill and not in the office today. So I'm sorry; we'll have to undertake to get an answer to your question with regard to that specific item.

I know the \$226 million that you refer to for 1997-98 reflects both a \$499-million reduction in the regular pension expense, mainly due to good investment performance, and a \$725-million provision for benefit enhancements. The \$250 million that you're referring to was actually provided in the 1996-97 year, and that was a provision for an anticipated negotiation with the teachers on an early retirement incentive.

In regard to your specific question, you're actually talking about two different fiscal years and two different numbers.

Mr Beaubien: While we're on that subject, I might as well try to get an answer to this one. We had allocated \$250 million in the previous budget. That money was not used in that fiscal year, correct?

Mr Andersen: On a PSAAB basis, the total cost of the negotiations or the deal that was reached with the teachers' plan was about \$975 million, of which \$250 million had already been expensed in 1996-97, and then the remaining \$725 million was booked in 1997-98. So it's not quite accurate to say that it was not used. On a cash basis it hadn't been flowed, but the full cost of the enhancements under that arrangement have been booked or used; it just happens to be split over two years, 1996-97 and 1997-98.

Mr Beaubien: I won't pursue this one any further. I'll wait until we have further details on this.

If I go back to page 15 of your presentation, you mentioned an accrual of \$430 million for employee severance costs, but then again if I refer you back to the

budget papers, on page 35 for local services realignment it shows a figure of \$498 million.

Mr Andersen: That was page 35?

Mr Beaubien: Yes, page 35 of the budget papers.

Mr Andersen: The number that you were just referencing was which one?

Mr Beaubien: You show \$438 million in your presentation this morning, and in the papers it shows \$498. The point I'm trying to make is that we have a \$650-million reserve, and although I'm not an accountant, I guess you can make figures dance whenever you want to make them dance. My question for my own personal interest is, how much money have we got in reserves kicking around?

Mr Andersen: I'll just answer your first question, actually. The \$438-million number that you were pointing to, if you actually look on the chart we just handed out, is a provision for Ontario public service employee severance. The other number that you were pointing to, the \$498 million, is actually a number that was provided for local services realignment, which is the transfer of a number of programs between the province and the municipalities. So you're actually talking about two entirely different things and different years as well.

What was the second question again?

Mr Beaubien: My other question: for instance, if we look at health care restructuring, if I look at what I have in front of me on page 35 in the budget papers, anything related to health care totals \$479 million, according to what I have in front of me. Yet you show in your presentation this morning \$970 million for the government's approved plan to restructure and realign hospital services. How do I balance these two figures?

Mr Andersen: The table that you're looking at on page 35 tabulates in-year operating expense changes, so those are changes that are over and above what was originally reported at the start of the fiscal year in the 1997 budget. For some of the items that you're talking about, there were already provisions that had been included in the budget earlier in the year, and this just shows the top-up or incremental amount.

A better table to look at is actually the one on page 27 if you want to see the total restructuring charges that pertain to the health care area. You'll see that for hospitals or health care, specifically for 1997-98, there was a provision made of \$880 million. For that item specifically, at the beginning of the year, in the 1997 budget, there was a \$450-million provision made. During the year that number was increased by \$430 million, to bring it to the \$880-million number that you see there. Again, I would point you to page 27 to see the total amount as opposed to the incremental amount.

Mr Beaubien: That's the point I'm trying to make: How much money do we have kicking around in reserve? I used that figure specifically to try to demonstrate that point, instead of using page 27.

Mr Siddall: If I could respond to that question, I think there's confusion around the reserves that we include when we do a forecast and what we actually show when

we come to do the public accounts as the actual expenditures. There are no reserves in the public accounts' actual expenditures at the end of the year; there are provincial liabilities that are to be paid out in the future.

If we take your example of the \$438 million on page 13, that \$438 million was based on the government's review of the business plans for each of the ministries during the year and determining or putting a value on the cost of making the decisions that were included in those business plans.

When we came to take a look at the interim numbers for 1997-98, we went back to those original plans. We looked at the cash that had been paid out during the year against those accruals and we adjusted our accrual for last year to reflect a number of things: that our plans had changed during the year; that some of the decisions we were making were either going to take longer to make or were not going to be made; and/or in some cases that certain costs were underestimated and the accrual had to be increased to reflect the proper costs that we've now experienced, or our best estimate of the costs based on the information we now have.

If you go to this year's budget, you will see that that original \$438 million was adjusted by \$200 million to reflect the changes that have occurred since those original decisions were made. Then, added to that are the additional decisions that we made in 1997-98 of \$175 million. So the net impact on the fiscal year 1997-98 for the government restructuring in the OPS area is \$25 million.

The reserves are something that we set up when we forecast and when we plan. Both the Provincial Auditor and ourselves, in terms of doing the public accounts, have to take out that caution and present to the public the actuals to our best judgement.

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Mr Phillips: My interpretation of Mr Beaubien's question, and frankly I don't think we got a very clear answer, is that the government has written off \$6.3 billion. They've expensed \$6.3 billion in "restructuring and other charges," and coming into this fiscal year they had actually laid out in cash \$1.1 billion. So there's \$5.2 billion sitting there, expensed, gone, but the expense has yet to be spent. If you're in government, it's kind of neat, because you've got \$5 billion to play with that you've expensed. It's a great re-election fund, frankly, and I'm envious. So there's roughly \$5 billion of just expensed but unspent money. I think the government plans to spend \$2.7 billion of it this fiscal year, so there will still be \$2.5 billion heading into the election to be spent. That's how I interpret this nifty little page.

My question is on some of these interim restructuring charges. The capital money for the Toronto Transit Commission of \$828 million, I assume that's a capital expense, is it?

Mr Andersen: It's reported under our operating expense. It's a one-time payment to discharge the provincial responsibilities flowing from the cancellation or the

end of the TTC five-year capital transfer in the Sheppard subway —

Mr Phillips: Isn't that a capital expense?

Mr Siddall: Again, in making that decision, we changed — the original agreement was to provide capital to the TTC, but by making a decision to get out of that area and accruing a payment to represent our obligation under that contract, it became an operating expense in the sense that when that money goes out, there is no claim of the province as to how it can be used.

Mr Phillips: Really?

Mr Siddall: In terms of the normal prudence, but it doesn't have the claim that it could be used to create a specific asset.

Mr Phillips: Boy, oh, boy. What about the school construction, \$971 million? Is that a capital expense?

Mr Andersen: The school one that you're referring to, you'll be well aware that there is a move to a new funding formula in the school system which involves a fairly significant amount of restructuring that's to be undertaken there.

Mr Phillips: This is to pay off schools that are constructed.

Mr Andersen: This is for schools that have been constructed and for which school boards have incurred debt already.

Mr Phillips: Will this be shown as a capital expense on our books?

Mr Andersen: Under the new funding formula that's being put in place, school boards will no longer be provided with capital grants to build schools and we won't be expensing new school construction in the year that the construction is started or undertaken. Rather, there will be a pupil accommodation grant provided in that funding formula and it will be up to schools to decide whether to undertake new construction or whatever.

Mr Phillips: I understand the future, but did you show this \$971 million as capital or operating?

Mr Andersen: As part of the move towards that new funding formula, the government has provided a fairly significant amount of transition funding in recognition of the significant restructuring that's undertaken. It has also committed to school boards that it will undertake the obligation for the next three years to assume the principal and interest costs for that debt servicing. Again, this is part of helping to provide more stability to the system and to the school boards themselves during a transition period. This will help them to better access capital markets and provide them with stability, knowing that those payments for the next three years have been —

Mr Phillips: Can I interrupt for a second? These are schools that are already constructed. They're built.

Mr Andersen: These are ones that have already been constructed.

Mr Phillips: And you have shown this school construction cost as an operating expense by the province?

Mr Andersen: The construction was already undertaken by school boards, and through our accounting and paying for the debt servicing, we show that as a re-

structuring charge through the operating side of our budget.

Mr Phillips: In last year's budget?

Mr Andersen: In the 1998 budget. You see that reported here, but the actual amounts themselves are reported in the 1997-98 —

Mr Phillips: That's what I said: the 1997 budget.

Mr Andersen: Yes, the 1997-98 fiscal year.

Mr Phillips: Not the 1998 budget; the 1997 budget.

Ms Carol Layton: It's in the 1998 budget but it shows it for the 1997-98 fiscal year.

Mr Phillips: Yes, but you've expensed it in the 1997 budget as an operating expense.

Mr Andersen: That's correct.

Mr Phillips: But through the history of the province, the provincial government, when we are paying for capital expenses — and these are schools that are constructed. Would we not normally show that as a capital expenditure?

Mr Andersen: As part of the change to the new funding formula, the new construction that's going to be undertaken will be flowed through the operating grant or the GLG or whatever you'd like to call it and there won't be capital grants to schools any more. You would see that if you were to look at the historical capital expense for the Ministry of Education. It is being reported through the operating side and will continue to be shown through the operating side as part of the new funding formula because it will be up to school boards themselves to decide whether they want to actually construct schools or lease or do all of the various options that they might want to do.

Mr Phillips: It's very odd. Maybe I could stick on that capital thing for just a moment. I hope it's appropriate to ask the question. Historically we spend about \$400 million a year on new school construction. The province has cut that to about \$90 million, switched it into operating, and said to schools that you now essentially will either be able to lease them or we'll pay the lease cost or we'll pay the annual principal and interest costs.

My question is this: The province predicts enrolment will grow by 25,000 students a year. It means that each year the new school construction should be around \$400 million. In my opinion, what you've done is gotten us into a potential significant debt trap here, where we start to lease and we lease and we lease and we lease and then eventually the annual lease costs exceed what we were paying annually in capital costs. Have you done a 10-year projection on the difference between doing this on a capital basis and doing it on a lease basis and what amount of debt the taxpayers are going to be in on for these new school constructions? Have you done that kind of 10-year projection?

Mr Andersen: I think actually that would be a question that more appropriately would go to the Ministry of Education with regard to the details around the new funding formula and the implementation of that. It doesn't necessarily relate specifically to what we're talking about here, which is the public accounts. Your question refers, I think, more to a future fiscal year.

Mr Phillips: Actually, it's very germane to the Ministry of Finance because it is you that we count on to manage our finances. In my opinion, if you've agreed to this, we are agreeing to a potentially significant debt trap for the taxpayers. Has the Ministry of Finance agreed to this? Obviously you've agreed to the process, but have you done your own analysis to determine what kind of debt we're going to get into with this way of handling school construction?

Mr Andersen: There will be some discretion for school boards to determine and answer that question themselves. They have a number of options open to them, and incurring debt isn't the only one. I'm not sure exactly with regard to some of the numbers you've cited; I haven't heard those figures before.

As part of the introduction of the new funding formula, it certainly is felt that this is a better way and a more fair way for all school boards across the province of being provided with a fair funding basis both on the operating side and their ability to provide accommodation for their students.

Mr Phillips: I repeat: I think we are heading into a very dramatic debt trap on this one. Every year we spent \$400 million because that's the enrolment growth. It's very easy for about three years to lease it; leasing is essentially just having someone else with the debt on their books but we with 100% of the obligation. I'm disappointed that the Ministry of Finance hasn't done that projection down the road. I'm not sure the Provincial Auditor can do it, but I would personally really appreciate if there is a way of getting a 10-year projection on the school capital debenture costs that we're going to incur.

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Another question: The province now has 100% responsibility for education. The province sets the educational mill rate for residential; the province sets the amount of money to be raised from commercial-industrial. Is it your plan that this revenue be now shown on the books of the province, the property tax revenue?

Mr Andersen: No, it's not. Those revenues are municipal revenues. I can maybe turn this over to Rob to provide a more detailed answer.

Mr Siddall: Our position — and again, we've had some discussions with the Provincial Auditor — is that these revenues are collected by the municipalities and passed directly on to the school boards.

Mr Phillips: But it's all set by you, by the province.

Mr Siddall: Yes, we're setting the rates, but who has access to the money are the school boards, not ourselves.

Mr Phillips: I'm not sure that's correct. The province says: "That's the mill rate. You raise it." Then it says to the school board: "You have that much money to spend. You will collect that much money from that municipality and we'll send you a grant for the rest." I don't think anybody has any discretion at all. No municipality has any discretion to vary that and no school board has any discretion to spend any more or less money — or any more money than you say. Have you had an opinion on that?

Mr Siddall: We've asked for help from external audit, like, from a CA firm, on this issue and have an opinion on that, but we have not finished our discussions with the Provincial Auditor.

Mr Phillips: Could we have that opinion, then, Mr Chair, from the external auditor?

Mr Siddall: Well, not the external auditor — the accounting firm.

Mr Phillips: The external accounting firm.

Mr Siddall: The external auditor is the Provincial Auditor.

The Chair (Mr Bernard Grandmaître): The external accounting firm, did you say?

Mr Phillips: I'd like to see the opinion that says that we don't have to record this as a provincial —

The Chair: Can the auditor clarify that?

Mr Peters: We'll certainly take that opinion into consideration in our work. As you know, this is currently under development and assessment by my office. It's up to the Ministry of Finance whether they wish to provide it.

Mr Phillips: That's who I was asking, actually.

Mr Peters: The last we have seen was that it was only in draft form. I don't think it had been finalized. Maybe there has been a final opinion by now.

Mr Siddall: In fairness, to be blunt, the only opinion that counts is the Provincial Auditor's opinion.

Mr Phillips: But you were saying that you went on the basis of an external accounting firm.

Mr Siddall: I'm saying as the preparer of the financial statements, based on our own expertise, and we asked and received support in coming up with that decision.

Back to Colin's comments about coming before the committee today, we are in the midst of having the 1997-98 public accounts audited by the Provincial Auditor, and that's just one of the decisions that both the auditor and ourselves, as preparers, have to come to an agreement on.

The Chair: Mr Phillips, one last question.

Mr Phillips: Quickly, on the public accounts, the debt issue for Ontario Hydro is of significant concern to all of us, because I think Hydro paid \$200 million to us taxpayers to guarantee their debt. Have you had a chance to look at, because we're issuing debt for them, Hydro's financial statements? They've released their annual report and they've done some accounting here that says they didn't use generally accepted accounting principles. Has the ministry expressed any concern about that, seeing, as I say, that we're on the hook for them?

Mr Siddall: Again, as you're aware, there is a separate opinion provided by the firm of Ernst and Young on those financial statements. Ontario Hydro works with its external auditor the same way we work with Erik Peters in terms of coming up with an opinion on our financial statements. I believe if you turn to their opinion, they have given an unqualified opinion on this set of accounts.

Mr Phillips: So we don't care about it? I'm trying to get an idea of what attitude the ministry takes to this.

Mr Siddall: The ministry takes the attitude basically that they have a set of external auditors, that those auditors are well recognized in Ontario, in Canada and around the world, and that the decisions between the preparer and the auditor are their decisions.

The Chair: Thank you, Mr Phillips. Maybe the auditor can provide us with clarification on this last question and answer.

Mr Peters: A comment that I would like to add to this is that the Ernst and Young opinion of course is also based on this report the province has given. You will find reference in that report to the six-point plan developed by the government for the restructuring of Ontario Hydro. So while the auditor of Ontario Hydro may have been reasonably comfortable, and we know they have done additional work to give that opinion, we are embarked currently on work to assess what this financial report of Hydro actually means for the finances of the province, and we are working together with the Ministry of Finance to assess what has actually happened in Hydro and how this will be reflected in the public accounts for the year ended March 31, 1998.

So we are dealing with two separate issues, because, as we pointed out in last year's public accounts, we certainly consider that the risk of the province to have made good under the guarantee is significantly increased.

Ms Martel: I want to return to the table we have been working off around restructuring and other charges, particularly to the point Mr Phillips was raising around what some of us would think would be capital costs but which appear as operating costs.

I listened carefully to the Ministry of Finance position on this. I'd like to ask the auditor, though, with respect to both the \$828 million that refers to the Sheppard subway and the \$971 to capital debentures and how they appear as operating: Is that a normal way to show expenditures which some of us would otherwise believe to be capital, not operating, expenditures?

Mr Peters: In government accounting currently, all capital expenditures are expensed, charged against the deficit, in the year incurred. The current practice is that. So, yes, it would be an operating expenditure of the government although it is capital in nature; it would be disclosed as that, but it would be charged against the deficit, if you will, in the year incurred.

Ms Martel: It's not so much the year I'm worried about as how it's classified. My argument would be that money that was spent on schools already built long before there was any hint that we were having any funding formula and certainly long before the new funding formula finally appeared are really capital expenditures, not operating expenditures.

Mr Peters: I appreciate your point. I'm in the position that this item was included in the budget, which we don't audit. What we do audit are the public accounts of the province, and we are currently looking at the public accounts for the year ended March 31. We're in the process of auditing this, so I cannot comment on this right now. This is how the Ministry of Finance has decided to

disclose it in the budget, but how it will manifest itself in the public accounts is currently under review by my office.

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Ms Martel: Do you have a follow-up on that?

Mr Phillips: I don't mean to take Ms Martel's time, but I go back to my opening comment, and that is that I view this like a public corporation, and people actually rely on the budget more than public accounts.

Firstly, I find it very curious that the subway capital is shown as an operating expense in the budget. I find it very curious that all these schools that have been constructed, which over the history of the province would have been shown as capital, are now in operating. I would find it even more curious if the public accounts show it as a capital cost when they show it in the budget as an operating cost. It's part of my concern that the books are now getting so confused that I'm not sure the public can rely on certainly the budget; hopefully they can rely on — they can rely on — your statement.

Mr Peters: Unless I qualify my opinion.

Mr Phillips: Whatever. I guess we're trapped here. You can't comment on what has been presented here because you say that's not in the public accounts. It really strikes me as odd that, in following the logic they presented, they could terminate any agreement they've got on anything; if they were just going to establish a new one, we'll pay it a different way and write it off. To me, it's totally clear-cut that that should have been shown as a capital expenditure. Where we go from here, I don't know.

Ms Martel: Can I return to the contingency fund so that I can understand this a little bit better? This is a follow-up from Mr Beaubien's question. I didn't clearly understand, and that's probably more my fault than anything else, the difference between what he called reserves and what I think you've defined as what is shown in the contingency fund. Could you just explain that.

Mr Andersen: Which number?

Ms Martel: He asked a question about how much money is in reserves. You provided an explanation which I didn't quite catch. That's my fault more than anything else.

Mr Andersen: It's really a terminology question here that we're dealing with. As Rob was mentioning, the term "reserves" is quite often used. We have the term "contingency fund." Both of those are planning tools that are used in the preparation of the province's budget and fiscal plan.

What Rob was mentioning was that by the time the public accounts come out, which report on the actual expenditures — the public accounts report on past expenditures, essentially; the contingencies and the reserves are used to anticipate what may happen. By the time the public accounts roll around, you have the certainty of knowing the actual expenditures, so you don't need those contingencies or reserves any more.

I'm not sure if that answers your question. Rob, did you have anything to add?

Mr Siddall: If I could, I'd like to just go back to your previous question. If the committee members turn to pages

28 and 29 of the financial statements we provided to you, I think it responds to what Erik Peters said in terms of the fact that when we do the financial statements for the province, we don't make a distinction between operating and capital.

As you'll see on page 29, "Expense by Ministry," there is no distinction between operating and capital. If you turn to page 28, you'll see that what we're calling "operating transfer payments" and "capital transfer payments" are actually included together in one line. So the stuff you're talking about, when it comes to public accounts time, the only thing we really show as capital is under the line "Acquisition/Construction of Physical Assets." Those are the physical assets that are purchased by the government for its own use in its programs and are, as Erik Peters referred to, expensed under public sector accounting and auditing board recommendations.

Ms Martel: Let me ask a question, just so I understand clearly, about the contingency fund. You said the reserve of \$650 million that was set aside in the 1996 budget was consistent with the recommendations that have been made and cannot be used for new initiatives.

I'm sorry that I don't know this. That would have been applied to the deficit then and appeared in 1997 as being applied towards the deficit, and then another \$650 million set aside? Would you just add to it or are you actually applying it in the fiscal year that ends, applying whatever is left in that fund, directly back to the deficit?

Mr Andersen: At the beginning of each year in the budget plan you'll see in our standard fiscal tables that we have tables that outline revenue/expense and then at the bottom it shows the reserve, then it comes to the total that shows a deficit. So each year at the beginning of the year you would see a \$650-million reserve that was included in the calculation of the size of the deficit for that year.

That has been included at the start of the year for 1996-97, 1997-98 and 1998-99. In both of the previous years, 1996-97 and 1997-98, those amounts were not needed and what you would see is that when the interim or final numbers are actually reported, those numbers, the \$650 million, would be set to zero.

If you'll look at page 9 of the financial statements document that you have, I'll show you. The table that's there outlines the budget plan and then what actually came to pass for the 1997 year. So you'll see that the plan included — in the far left-hand column, about three or four lines from the bottom, there is a line that says, "Reserve." That's under "Statement of Operations and Accumulated Deficit." So there are three columns at the right that say, "Budget 1997," "Actual 1997," and "Actual 1996." The "Budget 1997" column is the numbers as they were originally printed in the budget and that shows a \$650-million reserve. For the year ending March 31, 1997, that reserve was not needed, so you'll see in the corresponding "Actual 1997" column that there is a zero there. If you look down you'll see that the deficit has also gone down.

It's very clearly laid out that the \$650 million, if the economy plays out as forecast, can't be spent on new

initiatives or anything like that. It actually has to go to reducing the deficit.

Mr John R. Baird (Nepean): I want to discuss with you the issue with respect to the new policy that's been taken regarding using the range of private sector economists' forecasts and being in the conservative end of that spectrum of opinion. That has been used for the last three years?

Mr Andersen: Since the recommendations of the OFRC came out, sure. So that would have been for the 1996-97, 1997-98, and again has been used in the 1998-99 budget.

Mr Baird: We heard from a number of presenters in the pre-budget consultations of the importance that the government's forecasts, particularly with respect to the deficit, are met not just in terms of the domestic confidence here in Ontario but for the bond markets and so forth. Particularly a number of economists mentioned that we had to set aggressive goals on deficit reduction, but that we had to as well set realistic revenue projections, because previous governments had been even upwards of \$3 billion or \$4 billion off.

What is the ministry's view with respect to that policy, and, as we approach a balanced budget, is there a view or belief that there's a measure there where at some point we are being too conservative, or is that conservative end of the spectrum the continued policy of the ministry?

Mr Andersen: Certainly it will be a continued policy of the ministry to continue to use prudent forecasts and cautious forecasts. The actual level of prudence, I think you could say, is a matter of debate. The way we have done it is, we have actually tied it roughly to about a point and a half of economic growth and we feel that's a fairly good measure, a good cushion, if you like.

1130

Some may argue that as we approach a balanced budget, perhaps the amount of caution that is built into there through the size of the \$650-million reserve, for example, could be smaller. I believe that more appropriately it should be tied to the economy, and in boom times you might say that you may not have to have as large a reserve, but certainly in times of recession it makes a lot of sense to have a fair amount of caution built in there. Certainly the credit rating agencies and the bond markets look at how the government is doing towards meeting the objectives it has laid out in its plan. They certainly feel a lot better about governments that meet or overachieve their targets than ones that miss them.

From a planning perspective it can be very disruptive to ministries and to the clients the ministries serve if an in-year correction is needed because there hasn't been sufficient prudence or caution built into the plan. If things aren't playing out as people were expecting from an economic perspective and in-year expenditure reductions are needed to be found so that deficit targets can be made, it can be very difficult for ministries to actually do that. Particularly as you get further into the fiscal year and their plans are relatively set, it can be very difficult for them to

make any kinds of changes. They have very little flexibility left.

It's certainly going to be consistent with the recommendations that we received. We feel it is very appropriate to stay at the low end or below the forecasts that are out there. Better to overachieve the deficit targets and not have to undertake some of those in-year corrections.

Mr Baird: I would just differentiate, in your comments, between reserves and contingencies associated with pressures for increased expenditures, and the revenue forecasts of economic growth and tax revenue because I think they're two different things.

Has the ministry done any examination in other provinces, in other jurisdictions, with respect to where Ontario would sit in terms of the growth forecasts? It makes, obviously, lesser forecasts because you want to be in the conservative end of the spectrum. So I guess they'd look at the best forecasts, look at the spectrum of private sector forecasts and then they're in the conservative end of it. Do we look at other jurisdictions and say where we end up in terms of meeting our targets versus other jurisdictions?

Mr Andersen: Yes. As part of the assessment of our own performance we would naturally be looking at other governments and seeing how they're doing. As part of the OFRC, they had delegations come in from other jurisdictions, the federal government, for example, to provide advice on the level of prudence and caution that could be built into budgets to help assist, from a planning perspective, with meeting targets and the like. We do that kind of thing. We keep an eye on what other provinces are doing in their budgets, as they release their budgets and report on how they're doing.

As we meet with investors and people who lend us money, naturally, particularly those who are out of the country or off the continent, they quite often have questions about how other jurisdictions or other provinces in Canada are doing because they don't necessarily view Ontario as just Ontario alone; they look at the other provinces, they look at the federal government. They've certainly been pleased to see that we are all basically going in the same direction in eliminating our deficit, so we have to be aware of what the other provinces are doing and how well they are doing in meeting their own targets.

Mr Baird: But in comparison with the federal Department of Finance's forecasts, for example, Ontario's prudence would not be an anomaly with other jurisdictions.

Mr Andersen: I don't think so. I showed you the excerpt from the federal budget that shows their reserve is about \$2.5 billion or so. We feel that we've tied ours to the size of our economy, and that seems to be a fairly good measure. Others are building caution into their budgets on roughly the same kinds of lines.

Mr Baird: Getting back to contingency funds and reserve funds, they haven't been required in recent years, which is a good thing, obviously. In this year's budget papers there's a second reserve fund or contingency fund at Management Board.

Mr Andersen: There's a contingency fund every year for Management Board. You'll see that it has some traditional items that appear every year, but it's basically to cover commitments or projects where the precise costs are not specifically known yet because maybe the ministry involved is not at the stage yet where it has been able to provide the detailed analysis for it. Those are ones that we feel are pretty likely to happen; they just haven't been developed in sufficient detail to actually build them into a ministry's expenditure base.

Examples of ones that are in the Management Board contingency fund for the 1998-99 fiscal year: There's some money that has been put there for the year 2000 corporate project. It's being held in a contingency fund because we have not yet been able to allocate the expenditures or disburse them to the respective ministries. We know those expenditures are coming; we just haven't yet been able to assign them to individual ministries. They will be by the end of the year.

We're also undertaking a corporate financial information system, and likewise by the end of the year we'll have more details about that. Every year you would see that there's a provision for potential extra forest firefighting, for example. This summer, who knows? If this is a really dry summer we may need more money than has actually been provided in the ministry's budget for that particular item.

Mr Baird: A dry spring.

Mr Andersen: Right. However, we're holding it in Management Board for now, and if it's not needed, then it's not needed, and the ministry cannot reallocate that money, for example, to a different priority.

Ms Layton: Just to add one point to that, as the fiscal year progresses we produce quarterly Ontario finances. You'll start to see that that's where we show the actual assignment of the moneys that are sitting in the contingency fund right into the ministry's budget. Certainly as Colin says, by the end of the year it's gone because it has all been distributed.

Mr Andersen: I would just add one other point. There is another kind of contingency fund that you would see, and that is that every year we also build into our budget \$200 million for anticipated year-end underspending, so it's almost a negative kind of contingency. We know, just based on the size of our budget, that by the time the year-end rolls around, inevitably there is underspending in every ministry. They don't come down right to their very last dime, so \$200 million is included every year for that. Again, that is reduced to zero by the time the public accounts come out.

The Chair: Mr Andersen, Ms Layton and Mr Siddall, thank you for appearing before us this morning.

Now, members, we'll get on with item 3 on the agenda.

Mr Baird: My colleague the member for Halton Centre was particularly interested in that. I believe he was the member who put that on the agenda and had asked if there would be an opportunity to push that off to the next meeting of the committee.

The Chair: In fact, I was going to suggest that. I realize Mr Young was very interested in this item. Yes, I think the members —

Interjection.

The Chair: June 11 would be next Thursday.

1140

Mr Peters: If I may make a brief comment on that. When we discussed that item in subcommittee I mentioned to Mr Young that I would not be able to give a detailed briefing largely because we are currently conducting work in that area. What I would like to advise the committee of early is that after this meeting is concluded, I will meet with the Speaker to propose to him that I will table a report in the Legislature on the millennium issues on June 16. I'm not sure whether you might want to take that into consideration. It will be difficult to report in detail on the 11th.

The Chair: June 18? The same day the auditor tables his report?

Mr Baird: That would be super.

The Chair: Agreed? Agreed.

This completes our agenda. Is there anything else, Madam Clerk, Mr Auditor? This is it.

Next Thursday, June 11, we'll be reviewing the Central Collection Service agency. That's chapter 5 of the auditor's report.

Mr Phillips: I wasn't sure of the process and I thought at the end of the witnesses there would be a chance to just ask the auditor a couple of questions. I didn't realize that we'd move on to the next part of the agenda.

The Chair: We have time. You're all welcome to grill the auditor.

Mr Phillips: I just wanted to follow up on some things. Something I'm concerned about is the flexibility in restructuring funds. It seems to me that a government — actually, the federal government has done this with the millennium student fund, writing off \$2.5 billion and then spending it two years down the road. Does the auditor have fairly clear guidelines of what things are permissible to write off in restructuring and what things are not permissible?

Mr Peters: Yes, we apply certain criteria. I'll read to you a sentence I found particularly pertinent that came out of Australia. Australia had this problem inasmuch as their accounting standards seemed to give some latitude to governments to include multiyear funding in one particular year. Admittedly it's a draft document, and I'd be happy to provide you with a copy. I'm quoting directly from it:

"The intention of a government to make payments to other parties, whether advised in the form of a budget policy, election promise or statement of intent, does not of itself create a present obligation which is binding on the government. A liability would be recognized only when the government is committed in the sense that it has little or no discretion to avoid the sacrifice of future economic benefits."

They go into some examples, but I may leave it there.

The criterion for the public accounts is essentially to determine whether a true liability exists at that point for

the government. There are two particular stages we have to talk to. One is pension obligations. They're specifically covered by PSAAB. If you amend a pension plan, the government that makes the decision to amend the pension plan has to bear the brunt of that expense at the time when they make the decision.

The Emerging Issues Committee — there are two issues that are pertinent to this. One is number 23. Number 23 essentially deals with personnel restructuring, that is, the people cost. If you announce layoffs, so many people, and you make that decision, at that particular point in time the government needs to recognize the corresponding liabilities. In this case, very clearly, severance pay is one issue. Also, if you introduce factor 80, then it actually falls into two issues: It falls both into the pension issue as well as into the Emerging Issues Committee pronouncement, EIC-23.

The 60 pronouncement deals essentially with a government ceasing to provide a certain service or part of a service. For example, let's take a look at the hospital restructuring, where the restructuring commission says, "We will continue to provide the service of having hospitals, but we want to take 850 beds out of the system." That would be getting out of part of the business. What EIC-60 recommends is that at that point the cost of doing so be reflected, when the decision is actually made. That would be the guideline in that regard that we would follow, and they could probably do that. Others are far more complex and we certainly need to look at them.

One of the points we are continually improving but I don't think we are quite there yet is that at the budget stage accounting issues are actually discussed with my office. This is why we are at loose ends, so we cannot bring to bear the criteria we are actually using at that stage of the process. In other words, where the government makes the budgetary decision, we're not quite in the picture or we have not been able to discuss with the Ministry of Finance the criteria we will be following when we assess the public accounts.

Let me make one last comment. I'm sorry, it gets a little bit long but it's an important one. When we issue these Public Accounts of Ontario, we deal with something called the "reporting entity." Where transactions are actually taken within the reporting entity and we discontinue a part of the service in one part of the entity and move it somewhere else, there's really no impact on these accounts. Where there is an impact is where the units are outside the reporting entity, and that's the other area we have to look at.

To give you an example in both cases, municipalities are outside the reporting entity. Therefore, if the government changes the service delivery, or discontinues something as a provincial program but now says it's a municipal program, for us that is a disposal of a part of the business outside the reporting entity. The same with school boards. School boards are not included in the financial statements, as they are under the current process. In other words, if the government has in the past funded certain aspects of school boards directly through grants

but is now doing it in a different way, has devolved it, then we have to look at that as well. This is the other concept that is the reporting entity concept. I hope that hasn't confused the heck out of you.

Mr Phillips: Sorry to take the time, Mr Chair, but maybe I'm looking for help in the wrong area. I think for the public the key number is, how well are we doing on the deficit? That's the key financial number. They want to know, is the \$5.2 billion real? It seems to me that what I heard today, in my opinion, is that it allows you right now to play significant games with that. If you can do it one way, you can do it the other way. But maybe I'm looking for help from you to say, "That is an accurate reflection of the real deficit," that they haven't taken expenses that are due three years from now and put them here so that you can accelerate it, because, as I say, another government can do it in reverse. Is that part of your role, or is your role much more technical, of, "Legally they can do what they did"?

Mr Peters: That is certainly, number one, a key question. We have to base it on some technical, but there is also the judgement area in that. There should not develop an opportunity for a government to shift expenditures between years without any rules or regulations. We are looking for two things. Do we have PSAAB support, accounting support for it? To give you an example, you held up the Ontario Hydro accounts. I think if you took a look at note 1 to the Ontario Hydro accounts, you would find that at least four times Ontario Hydro makes a very interesting statement at the bottom. It says, "These expenditures would be recorded as incurred when incurred" — I think you'll find it —

Mr Phillips: Under "generally accepted accounting principles."

Mr Peters: Yes. There's a sentence I'm trying to paraphrase from memory here, but it's something along the lines that under generally accepted accounting prin-

ciples these expenditures would be recorded when incurred and that they have only been moved on this. That gives you a little bit of the flavour of the judgement we have to follow. What we're really saying is that under generally accepted accounting principles expenditures should, the first principle, be reflected when incurred. There are certain criteria which can be applied where expenditures can be reflected, although they may be reflected in the future. We look at those very stringently. That's about the only assurance I can give you at this particular point.

Mr Phillips: This is my last comment.

Mr E.J. Douglas Rollins (Quinte): Just say you agree with it, Gerry, and that's all.

Mr Phillips: I agree we should use generally accepted accounting principles. I know you look at Hydro, and that will be of interest to me, at least, and the restructuring will be of interest. The pension thing is of interest to me. As I say, I've been told by the officials that the cash payment — you can't comment on this because it's 1998-99, I guess — in 1998-99 is \$1.1 billion and the expense shown on the books is \$62 million. I think the public would be surprised at that. The fourth one is education, which in my opinion we have to come to grips with. Again, you may not be able to comment on it because it may be a 1998-99 issue, I don't know, although I think some of it was in 1997-98.

Mr Peters: To the extent that it affects 1998, we will definitely be commenting on it. I can tell you that we are looking very closely at the Hydro situation, at the pension situation and at every single element of these restructuring and other expenses which were included in the budget.

The Chair: On that note, thank you, members, and a friendly reminder that on June 11, next Thursday, Centre Collection Service agency. That's chapter 5 of the auditor's report. This committee stands adjourned.

The committee adjourned at 1152.

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Central Collection Services

Comité permanent des comptes publics

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PUBLIC ACCOUNTSCOMITÉ PERMANENT DES
COMPTES PUBLICS

Thursday 11 June 1998

Jeudi 11 juin 1998

The committee met at 1038 in room 228 following a closed session.

1997 ANNUAL REPORT,
PROVINCIAL AUDITOR:
CENTRAL COLLECTION SERVICES

Consideration of chapter 5, public accounts of the province, Central Collection Services.

The Chair (Mr Grandmaître): Good morning and welcome to the standing committee on public accounts. Before I introduce our witnesses, I'd like to point out that the legislative research people of Ontario are playing host to three researchers from the Legislative Assembly of the Northwest Territories. They are Douglas Pon, Robert Collinson and Nicole Camphaug. Welcome.

MANAGEMENT BOARD SECRETARIAT

The Chair: Our witnesses this morning are Michele Noble, Deputy Minister of Management Board Secretariat; Scott Campbell, assistant deputy minister, services division; and Leslie Nanos, director of general business services. Welcome to our committee this morning.

Ms Michele Noble: I believe a set of slides has been handed out to the committee members and I will be using those as a basis for some very brief opening remarks. Obviously we're here today and welcome the opportunity to meet with the committee to respond to the Provincial Auditor's report and also to bring you up to date on the status of the collection of overdue accounts owed to the province.

From the point of view of Management Board Secretariat, I think we can say that, as managers in this area, we were concerned about the activity in collections at the time the audit was under way and have been both responding to the auditor's recommendations and also taking action to improve the situation in terms of the management in this area.

Today what we'd like to do is present some data that indicate where we are in terms of the collections, the status of that based on the actions we've taken and show that at this point, in terms of the collections for 1997-98, we actually not only brought those back to the level of 1995-96 but have exceeded that in terms of what we had achieved in terms of the auditor's concerns.

Turning to the slide, "Activities Undertaken to Initiate Effective and Timely Collection," page 2, we want to indicate that the staff have been working with ministries to transfer the accounts. This was an issue that had been raised in the auditor's report and also flagged in the reports affecting the Ministry of the Attorney General and the Ministry of Education. Additional staff have been hired within the section on a temporary basis to complement internal resources; also the assignment of staff within the branch as a whole to ensure we have resources in place. In addition, part-time legal counsel has been retained to enable legal action, as appropriate, on the accounts.

As indicated in the chronology of events, which is on page 276 of the auditor's report, an RFP was issued in July 1996 for collection of Ministry of Attorney General accounts and other previously written-off tax and non-tax accounts. The contracts awarded for the overdue pilot project contained extension periods up until May and also allowed for the addition of new accounts. These contract provisions have been utilized to increase the collections activity and, specifically, they've been used to ensure that we were undertaking collection of the AG fines.

Enhancements have also been made to the computer systems, which have enabled ministries to transfer files electronically — I think this was a point with respect to the AG — and also to increase the ability of the collections operation to collect accounts after transfer.

To increase customer service, the branch has been working with ministry finance branches and program areas on the refinement of service level agreements. The agreements contain standards on collection activity, transfer of accounts and reporting requirements. We're just at the point where a final draft has been approved by all ministries and the agreements are expected to be in place by the end of this month. That is a result of that consultative work.

The branches worked with the Ministry of Finance and line ministries in the establishment of enhanced revenue policies to reduce the number of overdue accounts receivable for the province. There are 17 policies which have been developed and are now available on the government Internet site. They set standards for all ministries on matters such as program design related to revenue collection, settlement collections, management, credit management and full disclosure. This is essentially, in addition to working on the collection side, to try to make sure that

before they're overdue, accounts receivable are better managed at the ministry level. Later this month we will be sending out an RFP to collection agencies, which will give us further action with respect to the AG accounts.

Turning now to slide 3, we have, for the next two or three slides, a set of figures for you. This one specifically presents figures to the end of the fiscal year 1997-98, which speak to where we're at in the program. The figures can be compared to those for 1995-96 and 1996-97. Amounts shown are consistent with those presented in the last paragraph on page 274 of the auditor's report, so we've set this up in that same fashion.

Looking at the second-last row of the chart, it can be seen through the actions we've taken to address the issue that we've not only returned to the value that we had in 1995-96, but also exceeded it. This is really the value of receivables collected. The auditor had flagged the concerns with respect to the 1996-97 performance last year. We collected \$34.4 million.

I know that the transferred accounts from ministries has been an issue for the committee. As you can see from the last row on the table, the accounts that had not been transferred have in fact been transferred and they're now under the management of the collections group.

It should be noted that of the total that was transferred between March 1997 and March 1998, \$79 million of these accounts were transferred in the last three months of the fiscal year, and at this point there would therefore not have been collection activity reflecting revenues as yet.

Moving to the next slide on page 4, it provides you with a further breakdown of the portfolio and indicates that student loans and MAG fines are the largest programs. I think that just gives you a sense of the breakdown of the portfolio as it stands today.

The next slide deals with new accounts transferred. Again this is speaking to the concern just in terms of the transfers coming from the other ministries and shows the pattern of transfers that took place during 1997-98, noting that there are some peak periods of transfers depending on the program; and again reconciling to the total.

Moving to slide 6, this breaks out the activity by month and by program. As you can see, collection activity on student loans increased significantly after the temporary staff were brought in who were mentioned. They were in place at the end of September. In addition, collection activity is related to the transferred accounts, and in the case of student loans, a substantial number of accounts were transferred in June, August, October and March. With respect to the Ministry of the Attorney General accounts, these were transferred in September and January, and collection activity subsequently increases in concert with those transfers.

Turning to slide 7, just to give you a status report on the outsourcing RFP, as you know, collections coordinates and provides the collection service on behalf of all government ministries. Since 1976, collections has utilized a combination of in-house and outsourced collection capacity. Approximately 67% of all collection activity has been conducted through contracts with private collection

agencies, so the idea of outsourcing is certainly not new. At issue here is the outsourcing of the remaining third of our activity. This is based on a business plan review that has been undertaken within the ministry in terms of looking at that, as well as looking at collections and the actual activity in relation to what we feel needs to be part of the core business of the ministry.

The business case we had projected that we would be saving in the order of \$1.9 million on an annual basis in terms of undertaking the collection. At this point in time the RFP was issued. There have been grievances filed with respect to the government's collective agreement and we are in the process of working through those grievances with the Grievance Settlement Board. At this point in time, because of an order of the board, therefore, the RFP has not been closed. As I said at the outset, however, what we have done in the interim is to ensure there is sufficient staff in place and in the collections branch to keep on top of and to manage the activities on an ongoing basis while we're awaiting the outcome of our discussions at the GSB.

At this point that was all I wanted to say in a manner of introduction and look forward to the discussion with the committee this morning.

The Chair: Thank you. We'll start with the government members.

1050

Mr Peter L. Preston (Brant-Haldimand): Just a very short question: On page 3 you were comparing 1998 to 1996, but we had \$35 million transferred accounts and \$25 million collected, which is about 75%, and you're comparing that with 1998, where you had \$254 million transferred and \$34 million collected, which is about 7%. Why are we only 10% as effective as we were in 1996?

Ms Leslie Nanos: I can mention that when you look at the transfer of the accounts, a large amount of the accounts from the Attorney General were transferred in the latter half of the year. Had they been transferred at the beginning of the year, we could have gotten perhaps another \$20 million. That will be reflected in the next months that we collect.

Mr Preston: So 1999 is going to look really good.

Ms Nanos: Hopefully it will look really good for the accounts that we have, and I'm hoping we don't get any more transferred because people are not going into debt for the government.

Ms Noble: Perhaps just picking up on that comment, as we look forward to this upcoming year, there are a couple of initiatives that are going to affect the volume of accounts transferred. One is the initiative whereby the Provincial Offences Act fines collection will be transferring to municipalities. That will have an effect once that takes place because those clients will no longer be coming through our system.

Second, I mentioned in our remarks that we had been working with the Ministry of Finance and ministries to have much better activity at the accounts receivable level. What we're hoping is that this will result in fewer accounts receivables being transferred to our collection services because they've been collected at the time by the

ministry directly. We will have to wait and see, but we are anticipating that there will be a decline in the level of accounts transferred to our collection services.

Mr Bill Grimm (**Muskoka-Georgian Bay**): I see this as a major problem area for the government. The numbers on page 3, and when you compare the numbers on page 5 with the numbers on page 6, it's pretty obvious that we're getting further and further behind in terms of the grand total that we're collecting and that we've got on the books as receivables.

Notwithstanding your comment about the provincial offences moneys, clearly the big issue is the RFP and where we're headed from here. I imagine that a lot of this stuff is probably confidential information that you don't want to comment on today, but the grievance process is a public process, correct?

Ms Noble: That's correct.

Mr Grimm: It doesn't seem to get a whole lot of media attention. I guess my question would be, what happens if the government fails in the grievance process? We're back to square one. It's pretty clear for anybody who's watching this process that the government's headed towards trying to outsource this because, if the information we received earlier is correct, people are moving away from the collection agency because they're looking for other work. Where are we headed with this thing? Can't we settle the grievance somehow and get on with collecting this money?

Ms Noble: We have been working through the process with the grievance board. Some of the issues have to do with timing and scheduling of hearings. I can say that the ministry has always been ready and has been prepared to sit down and try to work this through. We have had several discussions with the bargaining agent to see if we can't resolve it in a manner that both parties can agree to. At this point in time we've not succeeded in reaching that agreement, but I think I can assure the committee that from the point of view of the ministry, we are doing whatever we can to try and work that out on this particular RFP.

We have been in the process of trying to work with them, based on decisions we've had in other cases, to make amendments to the RFP in this case that would model on the jurisprudence we've received from the board. We have unfortunately as yet not been able to reach agreement with the bargaining agent, and the process itself hasn't concluded with respect to this RFP in terms of a final decision coming from the GSB itself.

In the meantime, and I think part of my remarks indicated, given that this process was taking and is taking time, we have taken action from a management perspective. I can say to the group that the staffing levels are what they had been historically. We've got staff assigned to these files. We're prepared to operate that way if necessary, and have moved forward on some of the technology improvements.

Ms Nanos: I could add that the technology improvements that were done have resulted in the automatic creation of the first letter that goes out to debtors. I can assure

you that every single account, and there are over one million now that have been with CCS, has been acted on as a result of the system enhancements. A letter has gone out to every single person. So when do finally outsource, there won't be any files going over that have no activity. We will transfer them over at that state, that level of activity, so there's nothing sitting there with no action as a result of the RFP not going out.

Mr Marcel Beaubien (**Lambton**): I want to follow on the line of Mr Preston and Mr Grimm. There's no doubt that I have an awful lot of concerns with what's coming in and what's coming out. In other words, I think we're losing ground.

I'd like to know what the ministry's position is. It's kind of nice to say that because of the provincial offences dollars being downloaded to municipalities, it should reduce the amount we have to collect, but I would consider that a decline by default. Basically we passed on the responsibility to municipalities, so we're not going to be responsible.

You mentioned the first letter to debtors. I was in the private sector, and accounts receivable were a major part of our business. If the money didn't come in, we didn't stay in business. I found that you could send one, two, three, four or five letters and you didn't get too much action, but if you made a call, I think people were a little more responsive to paying their debt.

Granted, I realize it is an unwieldy problem, it is a difficult ministry, because you deal with an awful lot of different types of debts and different types of people, but are you prioritizing or targeting certain aspects; for instance, the retail sales tax sector, whatever? What are you doing as a ministry in order to look at trying to rectify the problem? The problem is not getting smaller. The problem, from what you've given us here, is compounding itself. It's worse than it was in 1995, it's worse than it was in 1996, and I'd hate to see where it's going to be in the year 2000. What is the ministry doing to target certain accounts?

Ms Nanos: Right now we're targeting student loans and Ministry of the Attorney General funds in the collections management unit. But over the entire ministry there are 17 revenue policies that came into effect a few months ago — and I agree with you that it's the accounts receivable process that needs to be firmed up, and the government agrees as well. In these 17 revenue policies, ministries are now told that you don't just sit on them until you decide they're old enough to send to central accounts; you make attempts at 30 days, 60 days, 90 days. Once they've reached 180 days, and hopefully there aren't many left, only those would go to central collections.

As you said, it's the accounts receivable that are the most important. We're hoping that as ministries beef up their accounts receivable steps, we'll eventually go out of business, because there won't be any overdue accounts; they will deal with them.

In terms of the letters, we found that just the letters going out has helped us. If you look at slide 5, the new accounts transferred, you'll see that for the student loans,

as they've started to be transferred in October and a lot more in January and February — and all we've done with the student loans, all we've been able to do, is that first letter — we're actually almost doubling what we had when we had them in October. So as a result of just the letters going out, we've gone from half a million dollars being collected in a month to \$1 million being collected in a month. It has doubled just as a result of letters going out.

Mr Beaubien: You mentioned accounts being 180 days and coming into CCS. How many staff and how much money would you spend with that particular aspect of your accounts receivable, 180 days and over? Do you have any figures on that?

Ms Nanos: On how much the government has —

Mr Beaubien: How much would the ministry spend staffingwise? How many staff would you have looking after that sector, and how much money would you spend trying to collect 180-day and older accounts?

Ms Nanos: In terms of our budget, it's \$2.5 million of the total budget.

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Mr Beaubien: Roughly how much would you collect in a year?

Ms Nanos: Roughly \$34 million. Our budget is \$2.5 million. This year, internally, we collected \$6.7 million of the \$34.4 million; the rest was collected by the private collection agencies.

Mr Beaubien: Do you think we're getting money for value?

Ms Nanos: I think we're getting money for value because my budget is \$2.5 million and the revenue as a result of all the activity is \$34.4 million. We pay commissions to the private collection agencies, but it's a net revenue-gaining exercise.

Mr Beaubien: But if we look at the amount of money we have spent, zero to 30, 30 to 60, 60 to 90, 90 to 100, I'm sure we cannot trace how much money we spent trying to collect that money. But by the time we get over 180 days, in the private sector I'd look at an account over 180 days as having a value of zero, basically get rid of it. It's not worth my time and my effort trying to collect that money, because chances are I'm not going to collect it.

Ms Noble: If I could perhaps just comment, because we manage only the accounts after the 180 days, we do not have information here in terms of what ministries would be spending individually on the before 180 days accounts.

Mr Beaubien: But that's my point: If we spend \$2.5 million to collect \$6.7 million, how much money have we spent up front trying to collect it?

Ms Noble: What I'm saying is that I don't have that information here, because each individual ministry is responsible for the accounts up until the 180 days. What we did mention here this morning is that as a result of the concerns that had been noted that you don't want to be trying to collect old accounts, you want to be taking action in a timely fashion, we have in fact put in place the 17 policy statements that ministries now are responsible for working with, which directly target early action on the

accounts by people in the individual ministries. The government has made ministries much more accountable for what they're doing at day 10 and day 30, so we will reduce the volume coming to us as old accounts.

The Chair: Mr Preston, one short question.

Mr Preston: Two very short ones. One is a statement. Some \$6 million collected on a \$2-million investment is 33% commission. We can pay less than that outside. Number two, what do you do to measure the output of your collectors, if you do have collectors?

Ms Nanos: I should clarify that the \$2.5-million budget includes staff who manage the private collection agencies, so the \$2.5 million is part of the \$34.4-million. The \$2.5 million includes our internal collectors and the staff who are there to manage the collecting activity of the PCAs, private collection agencies. So it's a \$2.6-million investment for the \$34.4-million recovery.

Mr Preston: We staff private collection agencies?

Ms Nanos: No, we manage their contract.

The Chair: Mr Patten, and then I'll get back to you, Mr Baird.

Mr John R. Baird (Nepean): Could I have Ms Martel's time?

The Chair: It'll cost you 30%.

Mr Richard Patten (Ottawa Centre): Good morning. Here's the way I see it: We've got receivables for all of government of about \$2 billion, and you're sort of the last chance, last resort: "Good luck to you. We've given up on this, and we don't know how much we've spent," other than the time frame, I suppose, of 180 days. So you've got a hell of a job just to try to deal with that. I know you've had some difficulties in the past, and it looks like there's more activity here. It depends on schedule, it depends on time of the year and all this sort of thing.

Do you have the resources to do the job?

Ms Nanos: We have the resources to do the job we're required to do right now, while we're waiting for the outsourcing to occur. Once the outsourcing can occur, I've hired mostly temporary staff, so then we will have the resources required in a service-management capacity for a budget of only \$750,000 to manage the collection of the private collection agencies. So I do believe we have the resources required.

Mr Patten: You had said, Deputy, that you would save \$100 million?

Ms Noble: The estimated saving was \$1.9 million in the cost of administering the collection of the revenue.

Mr Patten: The three big ministries of course are Attorney General, and presumably that's mainly the family support plan —

Ms Nanos: It's fines.

Mr Patten: What about the family support payments?

Ms Nanos: We don't handle that portfolio.

Mr Patten: What does the Ministry of Economic Development, Trade and Tourism have for repayments?

Ms Nanos: The Ontario Development Corp, the previous venture loans. That program doesn't exist any more, so once these accounts are collected, we won't have new ones.

Mr Patten: It should exist. It was a great program. We wouldn't have the high-tech sector we have in the Ottawa-Carleton area, believe me, if we hadn't had that program.

Mr Baird: It's done very well since the government —

Mr Patten: It's done very well because they got some support at a crucial time with venture capital, because no one else would provide support for them.

The Chair: Can we get back to the matter at hand and finish that question after our meeting, Mr Patten?

Mr Patten: Yes. The 17 policy statements, do you have those available?

Ms Nanos: Yes.

Mr Patten: This is a basis of negotiation with the ministries?

Ms Nanos: These are revenue policies that outline the standards that ministries must follow in terms of collecting, accounts receivable, the types of records they have to keep, when they're allowed to make settlements etc; on accounts receivable, not just the overdue ones after 180 days, but specifically what you do the minute you find out that your account hasn't been paid.

Mr Patten: Do we have copies of that?

Interjection: We will.

Mr Patten: Is this recent?

Ms Nanos: In the last few months.

Ms Noble: They've been approved within the last year. As I noted, we've put them up on the government Intranet so they're available there, or we can get copies to the committee if you wish.

Mr Patten: Overall you have a responsibility as Management Board, as I recall, to really oversee some of the approaches and the manners in which ministries will go about, in this particular instance, dealing with their receivables, so you have sort of a policy monitoring role on that score. Then you're faced with the worst job of all. If they can't do it, then they come to you and say: "Here are our worst accounts. We can't do it. You do it." So you're playing two overall roles there.

What was the original plan? You were saying that you wanted to maximize your outsourcing.

Ms Nanos: Yes.

Mr Patten: Totally?

Ms Nanos: One hundred per cent outsourcing versus the 66-33 split that occurs now.

Mr Patten: None of those people would be affected by the monitoring role or the overall role Management Board has with the other ministries?

Ms Noble: No. The policy side is separate from the collection services activity.

Mr Patten: Those are all the questions I have right now.

The Chair: Can I ask a question before I get to Mr Baird? You were saying that all receivables over 180 days are turned over to you, right?

Ms Nanos: That is what is to occur under the new policy.

The Chair: Under the new policy? Right now it's 90 or what? It's 180 days now?

Ms Nanos: Yes. The policy is 180 days now, and ministries are starting to follow that.

The Chair: The previous policy was 90 days. Am I right?

Ms Noble: No, it's been 180 days. It's been reinforced. In fact, I think one of the issues the auditor was raising was that ministries were longer than that in terms of the transfers.

Mr Ken Leishman: I believe the policy at one time was 90 days, unless I'm mistaken, but maybe it's been changed within the last year.

Ms Noble: I'm not aware that there had been a change, that the 180 represents a change, but we can check that out.

The Chair: I guess I don't have a supplementary, then.
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Mr Baird: A number of points. This is something we discussed looking at the research piece. Mr Patten mentioned the \$2 billion of money owed to the government. How much of that is on income tax which is collected by the federal government, where we obviously have significantly limited, if any, opportunities to go after it? Or is that included?

Ms Noble: Is the question how much is owed as provincial income tax?

Mr Baird: That's right.

Ms Noble: We don't collect the provincial income tax.

Mr Baird: That would not be included in the \$2 billion?

Ms Noble: That would not be reflected in these numbers. Provincial income tax is collected by the federal government on behalf of the province and then remitted to the finance minister.

Mr Baird: So that's not included in the numbers that you presented here?

Ms Noble: No.

Mr Baird: Mr Patten mentioned a figure of \$2 billion. You were including the income tax numbers there?

Mr Patten: I don't know how it's made up. I just saw that in the auditor's report.

Mr Baird: Can we ask the auditor?

Mr Leishman: I'm sorry. My attention was diverted.

Mr Patten: Was PIT included in the \$2 billion of general government receivables?

Mr Leishman: Yes.

Mr Baird: How much of that \$2 billion was PIT, approximately?

Mr Leishman: I'm sorry. I don't have a volume I of public accounts with me. It would be somewhere in volume I of public accounts.

Mr Baird: I was just curious because obviously we have a limited opportunity to collect that, if any, and I would suspect close to zero opportunity to collect that because obviously it's administered by the federal government.

I want to follow up on the comments made by my colleague from Brant-Haldimand in terms of the measurement of performance of debt collection. Do you look at comparable jurisdictions or at collection agencies in

general for a graduated measure of what you think it would be reasonable to expect?

Ms Nanos: We do have performance measures for the private collection agencies and we compare them with each other to see how they're doing. We've looked at private companies to see what they have, but they usually have collateral that they can get back. We can't take back a student's degree if they don't pay, and the same with fines. Most of the data available are for collections in the private industry, so they don't really relate to us.

We can compare year to year with our same accounts using different PCAs to see how they are doing compared to each other.

Mr Baird: To follow up on that point, you mentioned you couldn't repossess a student's degree, but, for example, the Royal Bank would probably try to repossess a \$15,000 or \$20,000 car.

Ms Nanos: That's right.

Mr Baird: The three North American automobile manufacturers offer a substantial rebate for recent graduates to buy new cars, so I suspect there's probably some overlap there if they're making a large automotive purchase.

Do you use performance measures, looking at your success tracking student loans with a private sector institution going after student loans as well?

Ms Nanos: No, we don't right now.

Mr Baird: Would that be a good idea, do you think?

Mr Scott Campbell: We do relative to the federal government in terms of the federal government also having student loans, so we compare what we do relative to what they do in terms of a performance rate, which is the issue you're raising there.

Mr Baird: My concern is that I don't think the federal government would be a standard which we would seek to — that wouldn't be the bar that I would set.

The example that was given was student loans, where if the Ontario government is lending a student \$3,000 a year and the Royal Bank is lending a student \$3,000 a year, we could compare ourselves to the Royal Bank and see how we're doing with respect to collections. That's something I feel strongly about.

Mr Patten: They do better, believe me.

Mr Baird: I think the taxpayers don't mind lending students money, with a clear expectation that that money is paid back per the terms that the student agreed to when they took it out. I think the integrity of that process has to be there. When the integrity is lost, why would you pay it back?

Ms Nanos: The federal government uses private collection agencies for the collection of student loans. That's what we looked at when we were considering outsourcing. That's their practice.

Mr Baird: But as well, we could look at the Royal Bank, at a private sector organization, directly.

Mr Campbell: In terms of the business case that we looked at in doing the outsourcing and so on, we have looked at what are called performance rates in terms of private collection agencies and we have also looked at

what other jurisdictions are doing; for example, the Canadian Imperial Bank of Commerce says, "If you are a private collection agency with us, your performance rate must be 30%."

We are looking at that, and when we do have an opportunity to go out, we are going to be saying to the private collection agencies, "We're going to be monitoring you relative to certain benchmarks, and if you do not achieve those benchmarks, we will actually take the accounts back from you and give them to another PCA." So we are doing that.

We have in fact had a fairly good analysis of what other organizations are doing in terms of what is called the performance rate, so we have some benchmarks to work towards. At this point in time, of course, some of this is still not decided because of the Grievance Settlement Board.

Mr Baird: You mentioned that there were performance measures for private agencies that the Management Board contracts to. Are there performance measures internally for the internal collectors?

Ms Nanos: For the internal collectors, we have standards that they have to follow in terms of conduct, and we review how much they're taking in every month. We have portfolio reports, and if one person is a lot lower, management has a meeting with them and clarifies expectations etc.

Mr Baird: How would you establish those standards of conduct for portfolio reports? Where would you put the bar? Where would you say, "This is a successful collector and this is an unsuccessful collector"? How would you establish that bar?

Ms Nanos: What we do is review them in relationship to the private collection agencies and also with each other. We have 20 people doing collections, so we can see the variability within those people.

Mr Baird: But then you compare their success to the private sector or other public sector jurisdictions?

Ms Nanos: Yes.

Mr Baird: Because obviously some are going to be much easier to collect than others. I mean, some will be pretty difficult to collect and —

Ms Nanos: Yes.

Mr Baird: Are there any measures in place with respect to the time lines of receiving collections? The assistant auditor mentioned that there's obviously the case where there's a much greater probability of collecting some or all of an overdue fine or moneys owed if it is dealt with expeditiously. Is there any time line with respect to the points of contact? You mentioned a letter at one point, which is obviously the first point of contact, and then there would be a series of others. Are there performance measures in terms of the time lines?

Ms Nanos: Yes, we have standards for our staff in terms of when they send a letter, when they follow up with a phone call, those kinds of things. For the ministries, as I said earlier, the policies are out there, but we aren't the enforcers of the policies, we're the service provider, so if ministries don't meet those time lines, I don't have any

accountability to call them and say, "You haven't met your time lines." I would remind them and send them management reports.

Mr Baird: A fair point. Obviously Management Board has a dual responsibility in this regard. You mentioned the example of student loans with 65,000 or 70,000 members of the Ontario public service and then a much larger public sector. Has there been anything done to ensure that we've looked at lottery winners and a whole series of other initiatives? Are there any initiatives in place with respect to ensuring that there are no moneys owed by provincial government employees to the crown?

Ms Nanos: I know that the Ministry of Education and Training is currently talking to the section of Management Board that deals with employee payroll, but there are all of the privacy considerations in terms of employees giving their social insurance number for one purpose and then another ministry using that information they gave for another purpose, so they are clarifying all that with the privacy commissioner and working together to see if that is a doable thing.

Mr Baird: But it would be the goal, though, that if an employee of the government owed the government \$10,000, we would try to collect it?

Ms Nanos: I understand the Ministry of Education and Training is trying to figure out ways of collecting from everyone who owes a student loan.

Mr Baird: But if someone were to say, "John, what's the policy of Management Board on this issue?" what would I say?

Ms Noble: What we're saying at the moment is that this is being examined in terms of what are the possibilities of doing this, but we've got the implementation issues that Leslie has mentioned, from a privacy point of view, and so at the moment there isn't a policy to collect it, because we have to look at the feasibility of doing it. What would go forward would be a consideration by Management Board itself as to whether it was going to implement a change in policy to do this, but that will only be done once we have done the research.

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Mr Baird: Great, because I think that would be something that would be welcome. As well, and this is obviously a more difficult proposition, the broader public sector — transfer agencies, whether they be school boards or hospitals or colleges and universities or municipalities — is obviously not in the direct sphere of Management Board in terms of a policy direction.

Ms Noble: I would just indicate that certainly on the privacy front we would likely have those similar issues.

Mr Baird: On the privacy front, was that an issue of — you used the word "implementation," so the question is just how one would implement that, not if one wants to.

Ms Noble: No, I think what we're looking at is the ability to actually link the data without transgressing privacy limitations; in other words, the fact that we're able to identify a student who owes us money and we're able to identify an employee, the fact that information wasn't given. We have issues of people providing infor-

mation for purposes, and when we obtain SIN numbers from employees, it's for particular purposes, and at the moment that has not been set up to cross-link with data for debt collection.

Consequently, those are issues I think where in other circumstances — we think of family responsibility — there's legislative override of that. But what we're dealing with at the moment is just the restrictions in terms of the protection of privacy legislation. That's what we have to work with. It's the question of, "Can we do it under the existing legal framework?"

Mr Baird: Great. I think that's it.

The Chair: Before we go on with Mr Beaubien, I think Mr Leishman would like to correct the record.

Mr Leishman: Mr Baird asked earlier if PIT was included in the accounts receivable, and I wanted to clarify. Yes, it is, but not from the individuals because the federal government collects PIT on behalf of the provincial government. So what is included in the accounts receivable is an estimate, as of March 31, of what is still due from the federal government for PIT.

Mr Baird: Is that correct? Is that segregated out in the auditor's report? Because I think —

Mr Leishman: It's not in the auditor's report. It might be segregated out in the public accounts, but I'm not sure of that.

Mr Baird: That would be something, just as a point of advice or thought, to make sure we do, that it is clearly segregated out, because it would be very unfair to hold the government accountable for the full collection of that when it's the federal government which is collecting it. I'm all for holding people accountable for decisions and things within their jurisdiction, but that, I would imagine, being the most significant source of revenue from the government, would be a significant part of that \$2 billion.

Mr Beaubien: Let me tell you that I sympathize with you because I think you have a difficult task. I'd like to concentrate on page 4, Ministry of the Attorney General, where you show \$250 million. Would that be unpaid fines mainly?

Ms Nanos: Yes.

Mr Beaubien: Why is it — apparently with traffic fines, you lift their driver's licence — is that normal? Is the \$250 million an elevated figure or just a normal figure?

Ms Nanos: I think it's pretty normal. The amounts that they are transferring us. Again it's a little higher this year because it's for past periods, but the trend seems to be similar.

Mr Beaubien: Let me ask you a hypothetical question then. When each ministry is given a budget, they operate within their budget, and the money they collect goes back into general revenue, to simplify the process. What I see, where the process is flawed is you're given the impossible account to collect, 180 days and over. I think there probably is an awful lot of duplication, because Sid probably owes the money to the Attorney General. Sid may have a bad student loan, and Sid might have made a loan with the Ministry of Economic Development, Trade and Tourism. I

would imagine, from zero to 180 days, that all ministries are operating in silos. In other words, there might three or four ministries trying to get hold of Sid, the same person.

Wouldn't it be more efficient if we had this Central Collection Services agency at day one as opposed to 180 days down the road, so that if we have a number of Sids, one person could be contacting that person as opposed to three ministries trying to collect from that particular individual?

Ms Noble: I take the point. At the moment, I guess the individual ministries have the responsibility and they have their processes in place. One of the things that we are undertaking within the administrative area is that we are looking at basic transaction-type services that individual ministries each have. That would include some of the financial transactions areas. We're looking at a direction of bringing those together into what we're calling the shared services bureau where there would be common administration in certain areas.

Certainly I think the point you're raising is one that, as we proceed forward with the shared services concept and we are looking at the specific time at which we will be moving to collect together some of the financial processing transactions, the opportunity is there to look at doing that on a more integrated basis downstream.

It's certainly not that way at the moment. As I said, what we are undertaking is an initiative to look at where common administration for all ministries in certain areas makes sense. There has been agreement that we should move forward on that, so certainly that's an area that can be looked at. We are also looking at the issue of financial systems and the timing of some of that decision may not be immediate, simply because we want to do it in a timely way with improvements in the financial information systems.

Mr Beaubien: There's no doubt that it's quite popular to look at the one-window service delivery approach. Why not follow through and look at the one-window collection approach? First of all, I think the success rate would be substantially higher. I think it would make it more cost-effective and I think we would serve the taxpayers overall in a better manner. I don't think we'd have the outstanding accounts that we have today because technically what happens is that I'm sure if you did some research or some study — you know, how often do we have ministries chasing the same culprit with no results at the end of the day? I think if we had one delivery service for collections, at the end of the day we would serve the taxpayers more effectively. That's all I have to say.

The Chair: It makes sense. On the same ministry again, of the \$250 million receivable, how many of those accounts or what percentage of those accounts are, let's say, more than a year old, 18 months or two years? Do you have a breakdown of those receivables?

Ms Nanos: If you give me a few moments, I'll check for the information. I do have it here.

The Chair: Very good. In the meantime, Mr Patten.

Mr Patten: You had said that there were some guidelines on accounts receivable. Have you also looked at,

which I gather you do overall anyway in your policy branch, auditing the whole program? In other words, the accountability of colleges and universities to counsel students who are applying for loans.

I've a 21-year-old daughter who just went through all this and I've got a son who's looking at this as well, and of course my recommendation is, "Don't borrow any money at all, we'll try and work this stuff out," even though they're independent and on their own. But I marvel at how many kids see the opportunity as an immediate resource without considering the long-term implications.

The requirements for the counselling and the advisers at colleges and universities — presumably they have guidelines. Have you reviewed those kinds of guidelines and what their accountability is and that they have actually or the student has actually gone through looking at the financial implications of the responsibility of taking a loan?

Ms Noble: I think in terms of the standards we've just been referring to here, we speak to ministries about the necessity of keeping receivables in mind as they go about doing their program design. So that's one answer.

With respect to, does Management Board's review program design operational guidelines at that level of detail? Not necessarily. It would vary by program. To a large extent that kind of level of operating guideline would be for the most part the accountability of the ministry.

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Mr Patten: Yes, and I expect that. I guess the auditor might have a role in that. In other words, we can look at the after-the-fact situation which you get stuck with, but of course the other way to approach it is, right at the source, are we doing all we can do at that stage? It seems to me we can strengthen the conditions, the orientation, the review and the responsibility. I'm using the student loan program as an example. I guess the ministry is there.

Maybe the auditor's office has a responsibility to review the strength of that from the prevention point of view of minimizing the need to go after collections anyway.

Mr Jean-Marc Lalonde (Prescott and Russell): When you developed the guidelines, you said that you had 17 different points in the guidelines. Do your guidelines, or is there something that could tell the collection group or agency that as to the student loans that were in arrears, agreement could be reached with the bank? At the present time they have to do that with the bank. We know that at the present time collecting from students for their student loans, if they had to give up a few years ago and never were able to go back to school — I have some occasions when they've had accidents and they've not back on the labour market yet because they became handicapped. The banks are still after them to pay that amount they had borrowed to complete their studies. Have you looked at this possibility when you developed the guidelines, that for the students it should be flexible?

Ms Noble: I guess there are two answers to that question. With respect to when we're in the process of collections and someone is unable to pay everything back

immediately, but wants to enter into some arrangement, our people can in fact undertake those kinds of arrangements, from the point of view of where we're collecting.

With respect to does the program design of the student loan program allow for forgiveness of the loan in special circumstances, that really is a question that needs to be put to the Ministry of Education.

Mr Lalonde: That has to be put to the ministry?

Ms Noble: Yes, the Ministry of Education is responsible for the program design; in other words, what's owed and when and whether there can be forgiveness under the program itself. The end of the business we're in is where they've deemed that it is a receivable that should be collected and then, as I said, the discretion we have is to work out a payment arrangement. It's a bill that is to be collected. We do provide for some flexibility where someone is unable to pay something immediately. They can work out a payment schedule.

Mr Lalonde: But you have taken into consideration that even though the payment could be deferred, they still have to pay the interest on that.

Ms Noble: That element is part of the design of the student loan program. That's not part of the collection service.

Ms Nanos: What we do when we contact the student and find out that they have difficult circumstances is we will call the Ministry of Education — as the deputy said, they have the ultimate say in that — and we will say that this person is able to pay \$100 a month, or they would like to have a five-month grace period and then they have employment. We will do that on every individual case and set up payment plans.

Mr Lalonde: So you would have that flexibility under the guidelines?

Ms Nanos: Yes.

Mr Lalonde: That's very good.

The Chair: In most cases, the interest is accrued.

Ms Nanos: That's right.

Mr Lalonde: The interest is still there.

The Chair: I know, it's building up.

Mr Lalonde: My last question: Ever since the government has been talking of transferring all those unpaid loans or overpayments to the individuals, Comsoc's regional offices have been going to those who have received some money from the ministry. If you take a case that is nine years old, they said they were never advised. It's a small loan of \$361. They said they had never gone to that person to collect that money, but now that they have to transfer that to the collection agency, they are trying to get that money back. But they were never advised. Has this been taken into consideration too? In this case, the person is dead and it is the husband who receives that.

Ms Nanos: Yes, those situations occur when, for nine years, the government has not been able to locate the person. We've sent them out to PCAs. They have more sophisticated technology and are actually able to locate the person. It's unfortunate if they've located a person who is deceased and we didn't know that, but in many cases, it's because for nine years they've been living in

different provinces and finally something has happened that they have been able to locate the person. People will say, "I didn't hear about this for nine years." That's because we haven't found them.

Mr Lalonde: That's what they said. They've never moved. They live a very short distance from my place and they came with this letter.

The Chair: Have you found an answer to my question?

Ms Nanos: Yes, I found the information.

I should start by saying that for Ministry of the Attorney General fines, I understand from the program that they are never written off, so they remain on our portfolio forever. That's why you are going to hear that there are some that date back 12 years.

The Chair: Twelve years?

Ms Nanos: Yes. Around \$10 million of the \$250 million are between five to nine months old; \$64.7 million are between nine months and two years; \$54.4 million are between two and four years. I'm sorry for the rollup of this, but we have \$120.9 million that are anywhere from four to 12 years. I don't have further breakdowns.

The Chair: That's enough. Oh, God, that's terrible. What's your annual budget?

Ms Nanos: It is \$2.5 million. Once we outsource it, it will be \$700,000. That's what the budget will be.

The Chair: Wouldn't it be — I'm the Chair, I'm not going to ask that question. Mr Preston, please.

Mr Preston: I may be asking the question, or maybe making the statement. I think it's very clear that it's mandatory that we get firmer guidelines for ministries, better accountability from ministry collectors, and we have to compress the time lines.

Anybody who has had anything to do with receivables in the private sector, and I'm going to echo Mr Beaubien, after 90 days your chances go down dramatically. I think we have to shorten the time lines in the ministries and make them more accountable for their money. As I suggested before, add it on to their budget, or 30% or 50% of their receivables on to their budget for next year and say: "If you collect it, it's yours. If you don't, you're out of luck." That will make ministers and deputies start collecting a lot faster.

The Chair: Mr Preston, if we were to operate this way, they wouldn't have a budget. Any response?

Mr Preston: Incentives.

The Chair: Incentives.

Mr Beaubien: You shouldn't have told me that you had accounts aged four to 12 years.

Ms Nanos: They have been worked and worked and worked, but as I said, we can't write them off. They're there forever.

Mr Beaubien: Why can't you write them off? This is absolutely ludicrous. There is no way you're going to collect these. As Mr Lalonde pointed out, these people are probably dead. Do you need a regulation change? Do you need a legislation change? What do you need in order to do this? Because that doesn't make sense. After four to 12 years, for God's sake, we're spending money printing this on paper. We'll never get that money. That's chasing bad

money with good money, as far as I am concerned. What do we to change this?

Ms Noble: I am not familiar with what it is that would restrict the Ministry of the Attorney General from being able to write off the fines, but we can certainly take up that discussion with them.

Mr Beaubien: I certainly would like some type of reply.

Ms Noble: Yes, we will be pleased to get you an answer.

Mr Beaubien: Because I am sure you don't want to handle those types of accounts. That's a waste of your time. I sympathize with you that you're faced with collecting accounts that are —

Ms Noble: We'll be pleased to get a formal reply back to the committee as to what exactly is the explanation.

Mr Beaubien: And you'll undertake to report back to this committee?

Ms Noble: Yes, I will undertake to do so.

The Chair: Just on the Ministry of the Attorney General, Mr Beaubien?

Mr Beaubien: Yes.

The Chair: Very good.

Mr Patten: Just on Mr Beaubien's question, what is the percentage of collections in that category annually anyway?

Ms Nanos: I don't have those data.

Mr Patten: It must be pretty low, but it would be interesting if we had that information. So that can be one of our recommendations of this committee.

The Chair: We will await the report from CCS.

Thank you very much. As you can see, there is a lot of interest in your agency and we wish you well. We'll see you in 12 years, if you have resolved any of that. Thank you for appearing before us this morning.

The committee adjourned at 1142.

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Journal des débats (Hansard)

Jeudi 18 juin 1998

Standing committee on public accounts

1997 Annual Report,
Provincial Auditor:
Ministry of the Environment
Technological/Millennium issues

Comité permanent des comptes publics

Rapport annuel 1997
Vérificateur provincial :
Ministère de l'Environnement
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STANDING COMMITTEE ON
PUBLIC ACCOUNTSCOMITÉ PERMANENT DES
COMPTES PUBLICS

Thursday 18 June 1998

Jeudi 18 juin 1998

The committee met at 1036 in room 228, following a closed session.

1997 ANNUAL REPORT,
PROVINCIAL AUDITOR:

MINISTRY OF THE ENVIRONMENT

Consideration of section 3.07, conservation and prevention division.

The Chair (Mr Bernard Grandmaître): Good morning. We have with us this morning John Fleming, deputy minister; Carl Griffith, assistant deputy minister, corporate management division; Ivy Wile, assistant deputy minister, environmental sciences and standards division; and Wilfred Ng, director, investigations and enforcement branch. Lady and gentlemen, we have an hour to deal with our issues — we have to deal with item 3 and 4 on the agenda — so we have an hour to spend with you. Will the deputy minister start, please.

Mr John Fleming: I'm pleased to assist the standing committee on public accounts in its review of chapter 3, section 3.07, of the Provincial Auditor's 1997 annual report. I have some comments I'd like to make in that respect and then we'd be delighted to entertain any questions the committee might have.

The auditor's review focuses on the conservation and prevention division of the Ministry of the Environment. The committee might be interested to know that the conservation and prevention division in the ministry has recently been reorganized and its responsibilities have been realigned with other divisions in the ministry.

We have a newly created integrated environmental planning division which has assumed the responsibilities for developing policy and programs to promote reduction of waste generation and conservation of energy and water. This division has also assumed the responsibility for developing environmentally sound policies for air, water, waste and land use.

Under the new organization, the responsibility for environmental assessment has been entrusted with the operations division of the ministry. The responsibility for developing criteria for approving provincial funding for water and sewage capital projects rests with the environmental sciences and standards division.

Before responding to specific points which the auditor raises in his report, I'd like to touch on some of our

achievements to date and to highlight some new directions which will enhance environmental protection in the province.

In terms of waste management, Ontario's highly visible blue box program has been an unqualified success. This program, operated by the municipalities, with guidance and financial assistance from the ministry, is available to more than 85% of Ontario's households, and that participation is increasing. Through our waste reduction program, of which the blue box is an important component, Ontarians have reduced the waste landfilled or otherwise disposed of by 32% since 1987, and we are now among the leading provinces in waste reduction.

That's not to say that the blue box doesn't have some challenges at this stage in its evolution. We are certainly aware of those challenges, and I'll be speaking more about that in a moment.

We are totally committed to our goal of protecting the environment. We have made significant improvements in the environmental assessment process, and the newly created provincial water protection fund to finance construction of water and sewage plants bears testimony to that commitment.

1040

I would now like to address some specific points raised by the auditor in his 1997 report. The report addresses three distinct areas: waste reduction, the environmental assessment process, and funding for water and sewage projects.

The auditor's report has provided an excellent review of how the ministry needs to improve the work it's doing. All issues raised by the Provincial Auditor have been addressed and the ministry is taking action to respond to all recommendations. Let me turn first to waste reduction.

The auditor has questioned our ability to reach the 50% target for diverting non-hazardous solid wastes from landfill sites. We agree that that's an ambitious target; however, we have made significant progress. As I stated earlier, in 1996 Ontario achieved a 32% reduction rate, which will be publicly reported in the ministry's business plan. Also, the waste management policy branch will include this goal of reducing waste by 50% as one of the performance measures in their business plan.

I am providing you with some facts and figures to illustrate the rate of progress we have achieved in this area. A fact sheet, "Municipal 3Rs in Ontario: 1996" — and we have copies of that available for members of the

committee — was produced in partnership with the Association of Municipal Recycling Coordinators, Corporations Supporting Recycling Inc, the Recycling Council of Ontario and the Ministry of the Environment. Over 1,000 copies of the fact sheet have been distributed to municipal, industry and non-government organization stakeholders since its release in the fall of 1997. The 3Rs fact sheet highlights waste reduction achievements between 1994 and 1996 including (1) a 16% increase in municipal waste diversion tonnage; (2) a 41% increase in centralized composting tonnage; (3) a 12% increase in residential recycling; (4) a 20% increase in municipally collected industrial, commercial and institutional recyclables.

The ministry and its partners are expected to release a second fact sheet on 1997 achievements in the fall of this year.

Some questions have been raised about the sustainability of the blue box program. The ministry is reviewing its options including those presented in the Recycling Council of Ontario's Roles and Responsibilities report. Currently, the ministry is working with the municipalities to promote cost-efficient collection and processing procedures to promote effective facility operation and to increase material capture rates. The ministry is proposing to work with Corporations Supporting Recycling Inc to examine where efficiencies can be achieved in the waste reduction infrastructure in Ontario. The ministry has plans to encourage more use of pilot demonstration projects to generate more ideas and options for waste reduction.

The ministry has also, in conjunction with the Environment and Plastics Industry Council, developed a full-cost accounting model, which has been distributed to municipalities, and we continue to work with municipalities that want to use this model to determine the full cost of their waste systems.

I am certain that all these steps will not only help to sustain the recycling program, but also to significantly enhance the rate of diversion of solid wastes from landfill sites and other disposal means.

Let me turn now to environmental assessment. On January 1, 1997, Bill 76 was implemented to increase the effectiveness of the environmental assessment program. That was just over 18 months ago. During this time, the environmental assessment branch in the ministry has made several significant steps forward in improving the effectiveness and efficiency of the environmental assessment program. To provide overall guidance and direction in doing this, the branch, through its continuous improvement section, has recently completed its 1998 to 2000 environmental assessment branch business plan. The plan identifies specific strategies and deliverables in addressing the issues of time and cost in the environmental assessment process, while always ensuring protection of the environment.

To improve efficiency, the regulation setting out the specific time frames for decisions in the environmental assessment review process is expected to be in place by fall of this year. However, the branch has been using the

deadlines proposed in the regulation to guide the review of all new environmental assessment submissions.

During the 1997-98 fiscal year, the branch has been successful in reducing the average time required to review an environmental assessment from the historical 26 months identified by the Provincial Auditor to approximately 12 months, a significant improvement. A performance indicator is identified in the ministry's business plan, to measure the effectiveness of the branch's efforts to reduce this time requirement. This achievement has been reported at various meetings and conferences.

I turn to the last issue, that being funding for water and sewage projects. In an effort to ensure due regard for economy, the ministry has changed its terms for funding municipal water and sewage projects. Under the new provincial water protection fund, the ministry has implemented steps to ensure that municipalities select the most cost-effective solution. The ministry has made administrative changes in the applications for funding, as well as changes to the terms of reference for studies funded under the provincial water protection fund. Municipalities applying for funding are required to examine various options, including water efficiency, system optimization, area joint servicing arrangements and private system upgrades to ensure that the most cost-effective solution is selected and to defer or eliminate capital expansion.

The study component also requires that the municipality commit to report to the ministry on the implementation of the results of optimization and efficiency studies.

To facilitate administrative matters and to evaluate critical information, the municipalities have been provided with documentation outlining program criteria and eligibility. Funding is only committed when complete documentation, including an environmental study report in keeping with the Environmental Assessment Act, are provided. The procedures for the flow of funds have been streamlined to ensure that ministry funds are available commensurate with the needs of the projects. The municipalities are now required to provide cash-flow projections in writing on a quarterly basis.

Overall, the auditor's report has provided an excellent review of how the ministry needs to improve the work it is doing. As you've heard me say, action is under way on all of the recommendations made by the auditor.

Thank you for your attention, Mr Chairman and members of the committee. We'd be happy to respond to questions.

The Chair: Thank you. We will start with the opposition.

Mr Dominic Agostino (Hamilton East): Thank you for the presentation. I want to focus a little bit on the future of the blue box program and the role of the province in trying to sustain that program. Just briefly, it was the auditor's recommendation that the ministry should work with municipalities to reduce the costs of collecting materials, and so on. In view of the fact that the funding for municipalities from the province for the blue box program is basically non-existent, do you see a danger in

the future viability of the blue box program; in view of the trends and changes in materials being recycled and collected and what the value of that material is, whether the municipalities can continue to afford to carry out blue box programs and recycling programs and such? Do you see a danger that municipalities may not be able to continue to afford to carry out the blue box program in view of the impact it's going to have on their taxpayers?

Mr Fleming: I'd like to start by saying that I think the blue box program is at a decision point in its evolution. As I mentioned in my opening comments, we're looking at a wide range of options in terms of how best to sustain and in fact improve the performance and the efficiency of the blue box. We've engaged in extensive consultation and have been assisted significantly by the Recycling Council of Ontario, that put together a consultation for us and brought us a number of options. Those options include a number of proposals for how to deal with the financial challenge that municipalities are facing. We're well aware of those challenges, as I said earlier, and we're actively reviewing those options now, looking for means of both sustaining municipal blue box efforts where they are now, increasing and improving diversion rates from disposal and assisting municipalities with that whole process.

1050

Mr Agostino: Just to follow up, though, do you believe the provincial government has a responsibility to assist the municipalities in a financial manner to sustain and carry out the blue box programs if the future of the program could be in jeopardy?

Mr Fleming: We see our challenge as being one of identifying the options available, considering all of the quite divergent stakeholder views on how to deal with this, and finding solutions that involve the stakeholders in making sure the blue box program is sustainable and efficient.

Mr Agostino: I appreciate that you're limited in what you can answer, given your role as a senior bureaucrat in the ministry. Would it be fair to say that the decision on whether or not there is funding for the blue box program — and I understand it's a political decision, not a decision you make, but as an expert in the field and as the top environmental bureaucrat in this province, do you believe there should be a role for government in financing and helping the municipal level? Knowing that the decision is strictly political, to be made by the cabinet or by the government, not by you, do you believe, from the point of view of patterns or trends you've seen elsewhere, that there needs to be a role for the upper levels of government to financially assist these programs if they are to continue to exist?

Mr Fleming: I believe there's a role for the provincial government in finding financial solutions to make the blue box sustainable. That's not the same as saying there's a role for the provincial government in funding the blue box.

Mr Jean-Marc Lalonde (Prescott and Russell): My question is in the same vein: the blue box program. At present, with the fact that some of the municipalities are going to user fees on the blue box now, do you feel there

will be a reduction in the participation of the consumer in the blue box program, which has been a success? We've seen that just lately the municipalities are talking of having a user fee for the blue box.

Mr Fleming: We're aware of a number of municipalities — I believe that number is in excess of 100 now — that have implemented user charges for garbage, but not for blue box. Our assessment is that those municipalities that have imposed a user-pay charge for the removal of their garbage have really encouraged people to use the blue box more. If you have to pay to have your garbage removed, most homeowners would take whatever steps they could to reduce the cost of that, and one very easy means for them to reduce the cost of their garbage is to increase the amount that goes into the blue box. To my knowledge, there are no municipalities charging individual homeowners for blue box collection.

Mr Lalonde: I've definitely seen that in the paper. In the rural areas they're talking of having a user fee or a user charge for blue boxes. They've also gone to a user fee for the garbage; they're allowed so many bags a week. Especially those seniors who don't need the full two bags they're limited to are going to put all those recycling materials in the garbage bags so they won't have to pay the fee for the blue box. That is definitely coming.

It's a good thing amalgamation might prevent some of that, because the larger municipalities already had the blue box program, which has been a success. Some of the smaller municipalities have not gone to the blue box program and are talking about going to blue box, but there will be a user fee.

Mr Fleming: I might turn that question to the director of waste reduction and ask whether there are any municipalities they're aware of that are considering blue box charges and what the stage of that is.

Mr Keith West: Any municipality with a population of 5,000 or greater is required to have a curbside recycling program in place, a blue box program. I'm not aware of any municipality in Ontario, and there are over 100 now that have a user-pay system in place, that have that user-pay on the recycling side. I am aware that the majority of those are related to the garbage side and that the garbage user pay is paying for the blue box program in those municipalities.

Mr Lalonde: Well, at the present time it's under study.

Mr Tony Martin (Sault Ste Marie): In the same vein, if municipalities are already experiencing difficulty in funding the blue box program, and I would suggest that most municipalities gave it their best shot, and we now have the government not participating any more in the funding of those programs, how realistic is it to expect that this program will continue and achieve some of the targets that we've all set and hope to achieve through this method of waste reduction and cost reduction at landfills?

Mr Fleming: I'd like to say first to the member that I think the sustainability of the blue box program is extremely important to all of us who have any involvement in it. It has become virtually an icon for people's attention to environmental issues. It's going to be important for us to

maintain that program because of the profile the blue box has. Our challenge is to try to find means of sustainable funding for the blue box, wherever that might come from. The RCO recommendations have offered us a number of options to consider.

The second challenge is to try to push harder on the efficiency of the overall blue box system. The blue box obviously is only the most visible part of the waste diversion system to the homeowner. There is a very large infrastructure that lies behind that for taking the materials, processing them, sorting them and finding markets for them. I think there's general consensus among all stakeholders that there are still significant efficiencies that can be found in the overall system.

So we have a dual challenge of finding a sustainable financing approach and reducing the cost of the program. I think that's doable.

Mr Martin: That's a huge challenge. It's going to be a challenge for municipalities as well as the provincial government. I'm not sure how many municipalities are going to be able to rise to that, given the lack of different kinds of resources that many of them are experiencing at the moment as they try to take over some of what was previously looked after by another level of government.

Are there other alternatives if, for example, two or three or five years down the road we find that the blue box just isn't the most financially feasible way of going about this? For example, earlier this morning Mr Young mentioned, and others have too, the possibility of other types of recycling initiatives, refillable bottles. We had the example presented of Brewers Retail, that program and the fact that they capture over 90%. Have you done any studies to indicate how effective that approach might be, as opposed to continuing down this road with the blue box program, which up to now is continuing to present as rather challenging in terms of who pays for it?

Mr Fleming: Certainly there are a number of other options available for diversion of waste. I'll call on Mr West in a moment for any comments he might make. No one would argue with the success of the Brewers Retail deposit return system. What we have in Ontario is a quite successful blue box program that has very high public credibility. One of our concerns is the creation of duplicate systems for dealing with other parts of the waste stream and the costs that go with creating what would be, in the beginning at least, parallel systems. I might ask Mr West if he has anything further to add to that.

1100

Mr West: The only thing I would add to that, and I certainly agree with it, is that we have had two municipalities, Guelph and Northumberland, put in a wet-dry system that is somewhat different than the blue box program and is seeing some success. So that's another option that municipalities are clearly looking at in terms of their future projections and getting to the waste diversion targets that they have set for themselves as individual municipalities.

Mr Martin: If the goal is waste diversion and doing that in an intelligent and environmentally sensitive way, is

there a point at which, for example, the blue box program just presents as unworkable given the new circumstance of who pays and the added cost? Is there a point at which you'd be willing to say, "This isn't working and hasn't worked"? I recognize that up to this point it is the icon and we're all into it. I put out my blue box every Monday morning. We participate in it in our community in a major way. But if that becomes financially unfeasible for communities under the new regime we have in place, is there something that indicates to you that maybe other approaches or a combination of approaches might be more financially feasible than the one we're doing now?

Mr West: I can only say that at this point in time the basket of goods in the blue box is comprehensive and covers a fair number of materials. At this point I think it's something we need to take a good, hard look at. As the RCO report has indicated, there are a number of options to look at, including refillables, including different payment programs in terms of how you fund the blue box.

At this point in time, I would say that we have a successful program and we need to make sure we build and enhance that program to the degree that we can. That is certainly something that is going on right now with the RCO report. The number of stakeholders that were involved in that was very comprehensive, and it was comprehensive across the province in terms of the meetings they held. They presented some very good options.

But by and large, I think the consensus is that at this point in time the blue box is still a very workable system and we need to introduce efficiencies into that system. We will be working hard to do that, and we need to come up with a mechanism for funding to ensure its sustainability.

Mr Martin: The clean water and sewage piece: I understand the push to make sure that all the projects considered all the different ways they could deal with their challenges besides new capital expenditures. At the end of the day, though, basins are filling up with sewage because the system is not able to handle the load and sewage is going into rivers.

Again, communities just don't have the resources under the new load that they handle by way of cost of the things they are now expected to pay for. If they are not able to do all of the studies that are required, that are suggested, and that you say are now the order of the day, how do you get to, "Okay let's do this because it has to be done," if that's what's obviously required?

Mr Fleming: I think it might help you to know that over the past two or three months the ministry has allocated in excess of \$120 million to over 50 different projects for water and sewer capital. What we are describing are the criteria that we are using for determining where funding goes. The objective behind that is to ensure that the funding goes to projects that are dealing with health or environmental risk areas. The additional criterion is to make sure the municipalities are finding the most cost-effective solutions. The bottom line is that the ministry has allocated over \$120 million in the last two months for projects of the nature that the member describes.

Mr Martin: We're being told that there isn't any money left in that pot. The niggling feeling of some of us is that some of these new requirements are actually being put in place to make sure that projects don't get to the point where they get funded and done.

Mr Fleming: In addition to my first comment, I would say that the fund that was created by the government was a \$200-million fund, and we still have something in the order of \$80 million of funding left over the three-year lifetime of the program.

Mr Martin: So there's \$80 million left in that fund?

Mr Fleming: Approximately that amount.

Mr Peter L. Preston (Brant-Haldimand): Tony's comment that the blue box system is the icon: You know that's not true any more; I know that's not true any more. We have systems that divert 80% of domestic waste now.

Your ministry spent substantial amounts on the Markham study that showed the wet-day system to be far superior. There's Guelph with its diversion rate right now of roughly 60%, Tillsonburg and Aylmer with a diversion rate of 80%. Yet we're saying 3% of the municipalities are breaking even. That means 97% of municipalities are losing money on a blue box system when they could be making money on a wet-dry system. That means the blue box is not the icon. It was an excellent idea, but so was the Model A. Its time has passed.

Why are we not endorsing the blue bag system and working with something that's 100% environmentally friendly or, if you want to argue with that, let's say 99% or 98% environmentally friendly, and 80% diversion is achieved?

Mr West: Guelph, to my mind, is a success story; that's correct. In fact, we have moved in our regulatory review exercise as a ministry to recognize the two-stream process, as it is commonly referred to, as a legitimate recycling operation. If there are other municipalities that are going to go in that fashion, the ministry will be supportive of that and is changing the regulations to allow that to occur on an ongoing basis. That's a very viable option. It is at the start very capital-intensive in terms of putting the facility together, and the municipalities have to judge that versus the cost of running a blue box program.

There are a lot of municipalities that are assessing that system. Whether it's going to be the most cost-effective system, we only have two, and we only really have one — that's the Guelph system — that's working to any great degree at this point in time in terms of both the wet and the dry side. So the ministry is very much responding to that in terms of recognizing those facilities.

Mr Preston: Sir, Tillsonburg and Aylmer are working at almost double the diversion rate of Guelph. Guelph cost \$38 million. I think your ministry came in for \$18 million of that.

Mr West: That's correct.

Mr Preston: Aylmer cost \$5.2 million. The people who operate Aylmer will put one of their things on a municipal site now for nothing. Tell me where the expense is incurred: 80% diversion, make money on the stuff you

divert, and it costs you nothing. I would like to know where this great expense comes from.

Mr West: I was just referring to the Guelph system, that it was capital-intensive to start off with.

Mr Preston: There's no question about that clearly if it has to be completely redesigned to make it come up to the 80% that the smaller but more efficient facility is.

Mr West: I guess my comment would be the same. It is up to the municipality, and Aylmer is a good case in point. They have also designed a system that is just as effective and has some cost efficiencies in it as well. As a ministry, we are recognizing that, and if that works for that municipality, we're not going to prevent them from doing that.

Mr Preston: The question is, in the report you're continuing to say, "We will help the municipalities with the blue box system," and there is no mention of the wet-dry system in the report at all, when it's much more efficient and about double the participation by householders, because there's no dirty old box to clean out. You put it in this bag or that bag, and it goes out on one truck. Everybody participates. Even if they cheat, they participate anyway, because when it gets to the line it gets taken out. Yet in here this is all directed at helping municipalities cope with the cost of the blue box system. I don't understand it. I may be a little rabid on the point, but I was taken to Aylmer and was shown this, and it blew my mind that this thing is sitting there so quietly and nobody knows anything about it, when it's the system for helping our environment.

1110

Mr Doug Galt (Northumberland): Could I get some clarification of the difference between what's going on in Aylmer and, say, Northumberland? Is it essentially just the dry side of the blue bag?

Mr West: Yes, Northumberland is just doing the dry side at this point in time.

Mr Galt: What's Aylmer doing?

Mr West: As I understand it, they have both components working, both the wet and the dry. I don't know all the specifics of Aylmer, frankly.

Mr Preston: Ask him; he'll tell you.

Mr Galt: I was just trying to get a comparison.

Mr Morley Kells (Etobicoke-Lakeshore): If I may, I'd like to get back to the auditor's report and the reasons you're appearing before us. It seems to me that the ministry is probably a victim of over-ambitious wording when we started out with the whole blue box program. I don't think there's any doubt that the blue box program is sustainable, but I don't think it will ever be self-sustainable, so if we can start getting the language put together properly then you're not going to have the auditor coming down on you.

It would seem to me, if I understand correctly — I don't know where the question is here, but I have some ramblings because I've just listened to you.

I think we have to accept the fact that the blue box is here to stay. It's an environmentally sensitive, acceptable process. I think we just have to eventually get our

municipalities to try to bring the cost down on the other end, once we get the collection, and what they do with it. But the public itself will accept or has already accepted that a cost goes with this. We have to by and large say to the public: "There is a cost to this. It's maybe not the perfect system, and maybe we're not getting as much out of it from the other end as we should, but it's still the way to handle garbage."

My sort of redundant question to you is, do you not agree that we have to get the language straightened out so that the municipalities aren't expected to try to make this thing balance? It's not going to ever balance.

Mr Fleming: The member makes a really good point around the whole question of sustainability versus self-sustaining. It calls to mind the whole notion of product stewardship and all the various industries and producers who package goods that end up — the packaging, that is — in the blue box, and what's the role of municipal government and what's the role of the various consumer industries that package products in looking at financing systems. Those are certainly all addressed in the options that the RCO has put before us and that we're looking at.

As it stands right now, the revenues from materials recovered from the blue box system certainly don't pay the full cost of the program. I agree.

The Chair: One quick question, Mr Preston.

Mr Preston: We have a problem with returnable liquor bottles, we have a problem with plastic pop bottles, all of which we're looking at the consumer to pay a little extra and take them back. The blue bag system, the wet-dry, takes care of that problem. You don't have to look for further legislation, you don't have to look at consumers paying more money for their product, because the system takes care of it.

I made the statement this morning that any time there's a problem with waste disposal, I've got the answer. It's the same answer every time: the wet-dry system. It cures virtually every waste disposal problem we have today. You've got hazardous waste, but other than that, household waste, no problem.

The Chair: Any comments?

Mr Fleming: I don't think I have anything to add, Mr Chairman.

The Chair: We'll have another round, Mr Kells. I'm sorry I cut you off. I would like to ask a question — and I'll get back to you, Mr Kells, I promise.

I need your assistance. In the 1997 auditor's report, you mention that the municipal assistance plan, MAP, now that you've extended — \$300 million in funding had been distributed to municipalities. What is the difference between this program and the provincial water protection fund of 1997, where there's \$200 million? What is the difference between these two programs? Are they the same announcement or what?

Mr Fleming: I'll ask Mr Griffith to respond.

Mr Carl Griffith: The difference is that for the new provincial water protection fund, the criteria have changed, with a greater emphasis on environmental protection and health, looking at encouraging municipalities

to find more cost-effective ways of addressing the environmental problems or the health problems. The MAP program was different in terms of its funding mechanisms. We think we've made considerable improvements to stretch the dollars as far as we can to address health problems and environmental problems. It is a totally different program. It is a brand-new program.

The Chair: So the \$200 million that you're referring to are new dollars?

Mr Griffith: That's correct, sir.

The Chair: We're talking about a half a million dollars between the two programs: MAP and this new announcement of August 1997, the provincial water protection fund?

Mr Griffith: I don't have the total figures with me of the expenditures associated with the MAP program but that program has been discontinued and the moneys that continually flow are simply carry-overs from projects that started perhaps a couple of years ago. The provincial water protection fund was just recently announced and, as the deputy indicated earlier, we have just announced over \$100 million of new projects related to the new program.

The Chair: What I'm trying to get at is that this new program, this new \$200 million that you announced in August 1997, those are new dollars?

Mr Griffith: That's correct.

The Chair: And you can't tell me how many dollars were spent in 1997 under the MAP program?

Mr Griffith: There was originally \$400 million allocated to the MAP program.

The Chair: I must have made a mistake here. Sorry, you're right and I'm wrong. Maybe I shouldn't be asking questions. After all, I'm the Chair.

Mr Lalonde: I had the same question.

The Chair: I'll pass on to M. Lalonde. One question from each caucus.

Mr Lalonde: It is on the water and sewage allocation project. I thought the ministry, when they said they want a municipality to be more cost-effective or to have more cost-effectiveness, would have come up with some criteria that they would have to meet. At the present time, I don't see any change from what was done in the past, less the percentage of grant or money that is made available from the government.

In my area alone — I met the OCWA people way back in 1995. The proposal was there were nine different filtration plants to be built. We said we should have one to cut down the cost and to be more effective. The government hasn't done anything towards that. We allowed some projects to go ahead just lately but there's no restriction.

I remember when former minister Grier said the 3Rs. We Canadians and Ontarians are the biggest water consumers in the world. We are still going ahead with grants for water filtration plants, but we don't have any restrictions. When I say restrictions, we should force every municipality to have a water metre.

I'm just going to give you a good example. When I was the mayor of the town of Rockland way back in 1977, 2,600 people were reaching the amount of one million

gallons a day at that time. In 1991, the population was a little over 8,000 and rarely do we reach one million gallons a day because we put in a water metre. I was against it at the time. But now that we know there is a problem, especially in the area where the water aquifer is a problem, we're not asking the municipality to put in the metres.

1120

You just approved a water filtration plant in one of the municipalities which is going to be on the aquifer. It will affect the municipality of Cumberland, which is in deep danger from a system that was just installed a couple of years ago. You people didn't come down with restrictions when you awarded the grant, and the centralization or the regional water filtration plant — you completely forgot to look at this possibility. There would be a great savings to the province, great savings to all the taxpayers, locally and province-wide, but you people haven't done anything about it.

Are you planning in the future, since you only have \$70 million left in that special grant that you have for environment, to have some restriction on the others?

Mr Griffith: The program does. I will emphasize, we strongly encourage, when we are working with the municipalities and their applications for grant money, that they investigate systems optimization, economic efficiencies, joint area schemes, the whole menu of opportunities that will be cost-effective in terms of addressing their needs and addressing any problems.

Mr Martin: Under environmental assessment and Bill 76, have you had time to assess the initial impact of Bill 76 on the assessment process?

Mr Fleming: I think I'd have to say we're still into the early days, but the indications are that the length of time for our processing is significantly reduced. The provisions under the new legislation provide for what's called scoping, which is to try and narrow and define through the whole environmental assessment process what the real issues are.

We do that in two stages. First of all, we require the proponent for a project to put forward terms of reference for the project so we get a clear idea at the beginning as to what the issues are. Then there is provision now in the legislation for the minister, when he sends an application to a hearing, to actually scope — again using the word "scope" — the hearing, to say, "These are the issues that are in contention and those are the issues that are to be determined by the hearing board," rather than throwing the whole matter with issues that don't appear to be in contention before the board and taking a great deal more time to deal with.

Mr Kells: Mr Deputy, I don't expect you to announce policy here but I'm wondering if you could possibly comment on when, to help satisfy the auditor's concerns, you might be able to come to grips with the soft drink industry and disappearing refillable bottles. We know that there are stakeholders, as they're referred to, who certainly have a financial stake in these decisions. If we're ever going to get to some kind of solution, they have to be

partners in the game. I'm just wondering where we stand from the timetable point of view.

Mr Fleming: The member is quite correct; it's not my place to announce policy. What I'm happy to say to the members of the committee, in the best of bureaucratese, is that this is an extremely active file. We are aware of the current challenges facing the blue box. We are extremely aware of the concerns that have been expressed, shall we say, by some of the municipalities, including the one that we are now sitting in, as to the need for solutions here.

I mentioned earlier, and I will say again, we're assisted very much by the work that the recycling council has done for us in identifying options, and they're actively being reviewed.

Mr Kells: Percentage-wise right now, between bottles and cans, what is the percentage? Do you have any —

Mr West: Bottles and cans?

Mr Kells: Yes.

Mr West: The refillable system at this point in time is just over 1%, maybe 1.7%.

Mr Kells: So regardless of the combination of bottles or cans, some 98% of it —

Mr West: — is either cans or plastic; the PET bottles.

Mr Kells: I've lost track of the representation, but are you dealing with what to do in the refillable area or the lack-of-refillable area? Are you dealing with the can people and the bottle people at the same time or do we have two different groups there, as there used to be?

Mr West: If I understand your question correctly —

Mr Kells: Give me the answer and I'll tell you whether the answer is correct.

Mr West: The soft drink industry is a stakeholder whose position, to the ministry, is always very clear. We do deal with them on a regular basis in terms of making sure that we understand what their position is. They are very much a stakeholder that we address and deal with on an ongoing basis around this issue.

Mr Kells: I was trying to get a newer grip or an up-to-date grip on the economic arguments between the can people and the glass people. I think, if you answered it the way I understood it, they are separate interest groups at this time. When you come to grips with whatever is going to be the ultimate policy, you're going to have to deal with those groups, are you not?

Mr West: That's correct.

Mr Fleming: I think it's the same as in any issue. Where there are complexities to an issue, there are some parts of some issues where people hold the same views against a common competitor and then there are other subsets within stakeholders where the views part company a little. I'd just like to say that we certainly have no shortage of stakeholder input on this issue.

The Chair: The floor is open for very short questions.

Mr Lalonde: Just a quickie. I see that in eight other provinces we have some form of compensation if you return cans or other bottling material. Do we intend to try to get this going? Being right at the Quebec border, we see those people from Quebec coming in and they pick up all the cans, to the point that one municipality had to put in a

bylaw that anybody who was caught picking up cans or recycling material would be fined. But they have to move them to Quebec, especially the aluminum cans. Do we have the intention of coming up with a similar program?

Mr Fleming: There are a whole range of options and the kind of options the member describes are certainly identified in the list of options that we're now reviewing.

Mr Preston: I could get rid of a whole bag of plastic bottles and save water. If you just want to fill them with water and put them in the back of the old toilet, it's going to save a ton of water over the years.

The Chair: Very good. On that note, we'll flush on to something else. Thank you very much for appearing before us this morning.

Mr Fleming: Our pleasure, Mr Chairman. I hope we've been helpful.

The Chair: Can we take a break, please?

The committee recessed from 1129 to 1132.

TECHNOLOGICAL/MILLENNIUM ISSUES

The Chair: Can we get on with our agenda? Our third item on the agenda this morning is an update by the Provincial Auditor on the millennium bug, or the bogue. In French it's "bogue." That's a new word to me. It sounds better when you say "bug." I'll ask the Provincial Auditor to update us on the latest on the millennium bug.

Mr Erik Peters: As you know, when we met in the subcommittee, there was some concern expressed by some members as to what we're doing about the millennium bug. At that time, the only thing I could tell you, because we were still in mid-audit, was that we were debating whether to have a special report or to include it in our annual report in the fall. In the meantime, we have made the decision that it had to be a special report. There was some concern expressed before we went to the tabling that in fact it was a special report because we were going to be very hard on the government. That was neither the intention nor the purpose of going to a special report.

The reason we went to a special report — the first time, actually, in the history of my office that we have a report other than the annual report — was simply the time issue involved. If we had waited until November, we would have another five months to go before these issues were provided to the legislators to look at. Also, the report, quite frankly, has helped the Management Board Secretariat to deal with the issue, because the Management Board Secretariat is in charge, if you will, government-wide of ensuring that the issue is being dealt with, but the mechanisms that are in place to ensure that the ministries are actually doing things are less forceful. There are committees, and there is a steering committee and a deputy minister structure, so it is all in that area, but what happens in individual ministries is quite — I don't want to say really all over the map, but it is quite different. As you can tell from the statistics in our report, some systems, our mission-critical systems, are certainly on target, but there are others that need acceleration and there are others that need really significant acceleration. In all cases that is

really a measure of the initiatives we're taking within ministries to take action.

So it was also in the interest of Management Board that we go forward with the report right now, to bring it to attention and put some oomph, if you will, behind the issue.

Mr Preston: The oomph and the bogue.

Mr Peters: The oomph and the bogue.

That's why we did what we have done. Essentially there are seven recommendations in the report itself. They deal with various issues that I want to briefly outline, if I can find my little crib sheet which summarizes it very neatly. I have it here. The issues dealt with in the seven recommendations were essentially as follows:

In the first recommendation we talk about acceleration of the process, addressing it and having a realistic contingency plan just in case we don't get there.

The second recommendation deals with focusing resources. As you can appreciate — even the ministry that was before us this morning — there are all sorts of priorities before them as to what to do on program issues, policy issues and new legislation that is going on, and because of the critical nature of this issue, we are really exhorting the ministries to give it a proper ranking in those priorities, particularly with regard to information technology staff, who are scarce, expensive and need therefore to be deployed in a very focused way, whether in implementing legislation or dealing with the millennium bug. There are some tradeoffs and decisions to be made at the ministry level, and we are encouraging them to give the millennium bug the priority it really should have at this particularly late stage, as we are 18 months away from that date.

The third area is to plan in sufficient detail. One of the problems we have identified, from private sector experience — we have gone out to private sector organizations and other government — is that as much as 20% of the problems are identified only at the testing stage, which is much later in the game. Then you have very little time to cope with these problems. So we are encouraging good planning to identify many of the problems up front so that they are dealt with in good time rather than waiting until the last and potentially having a problem with systems failure.

1140

The fourth recommendation, and a very important one, is to start, as soon as possible, phase 2 of dealing with the millennium bug problem, and that is to plan for two very specific and important areas. One is the so-called less critical systems such as telecommunication systems, other support systems, PCs, things that are around in that regard. The other is to have very active communication with suppliers or other parties with whom the government deals on an electronic basis where it's changing data that goes in. For example, one that comes to mind is that corporations in Ontario can file their tax information in the corporations tax system. We would have a problem as the tax collector if their systems crash all of a sudden and

we have to go, obviously, to a manual way, or find another way of dealing with that particular issue.

The fifth recommendation was to ensure that critical staff resources are actually in place because the millennium bug is pretty well pervasive. The private sector is coping with it; other governments are coping with it; the Americans and other countries are coping with it; the Europeans are making a great call on resources because they, combined with the millennium bug, are also trying to solve the problem of changing their currency to the euro, where they also have a deadline, which is a big information technology problem.

Information technology resources are much in demand and can pretty well dictate virtually their own price at which they want to be paid. The government, of course, has far less flexibility of dealing with these issues than the private sector, because they can pay bonuses, premiums and all sorts of other things which are not provided for in either our collective agreement or in the way we have structured remuneration in the government sector.

We have made recommendations to take steps. One way, of course, they're overcoming it is by engaging outside consultants to a great extent and to deal with that on the value-for-money basis. We haven't given up on the value-for-money concept, although this is an urgent matter.

The sixth recommendation is to establish an independent quality assurance program so that the ministry knows whether they are getting quality and can gauge the quality with which the problem is being addressed by either their own staff or the outside consultants who are getting in.

The seventh, very short, is to now get into the phase where a very good testing plan is developed. The government is setting aside a dedicated computer facility only for testing. That has to be scheduled, who can do what, when, because although the number is low, or looks low, of 63 critical systems, each one of those systems is really a whole suite of systems that interact with one another. The 63 are, if you will, sort of the tip of the iceberg; that is, the suite of systems directly affects Ontarians in the way we deliver service, it directly affects the way we collect revenue and it directly impacts on critical payments that the government has to make.

When I say directly influences, it can affect health services, public safety, environmental protection, very important areas where we can't really have a failure without people being affected by it. That is, I hope, a short enough summary.

The Chair: Any short questions?

Mr Galt: Yes. I fluctuate from, "Good grief, this can't be much of a problem; we're just talking about a couple of zeros and a two," to "I don't know if I want to get on an airplane on January 1, 2000."

How big a problem is this? I just can't get my arms around a gut feeling about it. Is it a tempest in a teapot? I guess you're telling me it's pretty serious.

Mr Peters: The answer is really it can be both. That's why we're saying carry out an analysis up front. You can

have a system where it really doesn't make a hill of beans of difference whether you have the right date in the machine or not, and yet there are other systems that may be very — for example, I met last night with some people from the technology area. They are saying you may have such a thing, for example, where there's a little clock inside the computer and it says, "This particular program needs servicing every 30 days." so the year 2000 rolls around and all of a sudden the computer says, "I'd better shut down because I'd need service for 100 years." All of a sudden, out of the blue, for no apparent reason, the whole system just shuts down and it's just a little thing like that. So it requires careful analysis.

One other technical problem is that it requires almost line-by-line reading of certain programs. Many of these programs were written in languages that are no longer in use. The people who can deal with those languages all of a sudden have to come out of retirement and literally say, "How do I deal with COBOL or Fortran?" or some of the old computer languages. It really is all over the map.

There are certainly a number of pieces of equipment where you don't have a problem. It's as little as this: If you have Windows 95 on your computer right now, in your PC, you have a problem. If you have updated it to Windows 97, you don't have a problem.

Mr Galt: So somewhere around 1995, 1996, software companies started to acknowledge that the year 2000 was coming?

Mr Peters: That's right. When you have software, you really should very often look for a little note on the package that says, "This is year 2000 compliant," and then you'll be okay, but you may have bought it as late as 1995 and not even worried about it and therefore have that problem.

The Chair: Can I ask a question? What about the additional responsibilities to our municipalities? Right now the provincial government is, if I can use the word, downloading some of their responsibilities.

Mr Preston: They've transferred responsibility.

The Chair: Transfers, then. What about these municipalities? We're talking about our provincial setup, but what about these 600 municipalities that will have to deliver new programs? Do we know if they're up to date?

Mr Peters: If I can help out to the extent that we can, this phase 2, where we're talking about the less critical systems and others, also draws in what is called the BPS, the broader public sector. They were starting to look at that, as to how the government programs themselves interface with municipalities and other organizations.

As far as crown corporations are concerned, as you know my office audited 70 of them. Some were fairly large, like the liquor control board, the lottery corporation etc. What we did from my office a few months ago — I forget exactly when; about April or so — was we sent out to the chair of the board of directors of each of them what we call an awareness questionnaire. We have developed a questionnaire in which the board and CEO can indicate how the organization is dealing with the problem. We are assessing that in every audit as to where they stand. In

fact, currently we are under negotiation in one organization where the board felt it was dealing with it in a reasonably timely manner, and when we did the examination we found it was not so. So we are dealing with the board directly on that and going in and making sure they are addressing the issue.

If I may add a very quick footnote on that, and it strays a little bit from your question, our questionnaire piqued the interest of the Europeans. The questionnaire that was developed by my office has been provided to the Fédération des Experts Comptables Européens, which is the new roof organization for accountants in Europe under the unification, to be used to create awareness in dealing with Europe's problems, because the problems are so parallel.

The Chair: One short question, because we still have an item on the agenda to deal with.

Mr Lalonde: Do you know, Mr Peters, if there will be some financial assistance programs for municipalities to cope with this change? I have received letters from municipalities asking if the government is going to have any programs to assist them in buying the new software.

Mr Peters: I don't know the answer to that question.

The Chair: If I may, I was told yesterday it's going to be part of the transition dollars. This is what the minister told me yesterday, that it would be part of the transition dollars. That's all.

Mr Lalonde: So those could be additional transition dollars.

The Chair: I really don't know.
Thank you for your report.

Can we deal with item 4?

Mr Preston: Mr Chairman, I believe item 4 is a matter to be dealt with by the House leaders. I don't think it's our purview to deal with that.

Mr Galt: Absolutely.

The Chair: We're being polite. We're asking.

Mr Preston: You can leave it to the House leaders as far as I'm concerned. Let them make the decision.

The Chair: If I'm not mistaken, and maybe the clerk can assist me on this, I was told the first two weeks in August and two weeks in September. Am I right?

Clerk Pro Tem (Mr Todd Decker): For committee activity? It's my understanding that there will be very little committee activity in July and that it will take place in August and September. What the House leaders and whips are asking for is an indication from all of the committees whether or not the committees want to have meeting time given to them in the summer.

Mr Preston: No.

Clerk pro tem: For this committee to be authorized to meet in the summer, we would have to ask for the meeting time and get on the schedule.

Mr Preston: No.

The Chair: Well, maybe I should take a vote on it. The answer is you're not interested in meeting all summer.

Interjections.

The Chair: I guess we'll leave it up to the House leaders to decide, as you've mentioned, Mr Preston.

Mr Preston: Move to adjourn.

The Chair: This meeting is adjourned
The committee adjourned at 1153

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Official Report of Debates (Hansard)

Thursday 25 June 1998

Journal des débats (Hansard)

Jeudi 25 juin 1998

Standing committee on public accounts

1997 Annual Report,
Provincial Auditor:
Ministry of Community
and Social Services

Comité permanent des comptes publics

Rapport annuel 1997
Vérificateur provincial :
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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON
PUBLIC ACCOUNTSCOMITÉ PERMANENT DES
COMPTES PUBLICS

Thursday 25 June 1998

Jeudi 25 juin 1998

The committee met at 1030 in room 228, following a closed session.

1997 ANNUAL REPORT,
PROVINCIAL AUDITOR:MINISTRY OF COMMUNITY
AND SOCIAL SERVICES

Consideration of section 3.04, transfer payment agency accountability and governance.

The Vice-Chair (Mr Richard Patten): Welcome to the standing committee on public accounts. Do you have a presentation you want to give?

Ms Suzanne Herbert: I have, if that is fine with the committee.

The Vice-Chair: We'd like to welcome you. Please proceed with your presentation, and then some members will either make comments or ask questions of you.

Ms Herbert: That would be fine. First of all, to introduce myself, I am Suzanne Herbert. I am the Deputy Minister of the Ministry of Community and Social Services. I have beside me Angela Forest, who is the acting ADM for corporate resources and corporate policy. I'd like to take a few minutes just to give you some remarks and then we'll move through.

Mr Chairman and members of the committee, I am pleased to reply to your request to respond to the transfer payment accountability and governance audit section of the 1997 report of the Provincial Auditor.

Before I turn to the specific points in the auditor's report, I would like to share a quick overview of the ministry and the kinds of services it provides and promotes. This overview will give a helpful perspective to our discussion about the ministry's relations with transfer payment agencies.

The responsibilities of our ministry are among the most significant of the Ontario government. This fiscal year, our combined operating and capital budget is about \$7.9 billion, and we have more than 7,000 employees.

Our ministry supports and invests in families and communities to encourage responsibility and accountability; adults, so they can live as independently as possible; and in a services system in which children are safe and people most in need receive support.

Our ministry is guided by the principles of shared responsibility, accountability, integrated and client-focused services, and fairness.

The Ministry of Community and Social Services has two core businesses. One of our core businesses is to provide assistance to about 1.1 million Ontario residents who require income assistance.

Our second core business is to provide social and community services. Our goal here is to provide effective and accountable services to those who need them most, and to invest more of our resources in early intervention and prevention services.

The type of support that falls under this category includes funding for child welfare, children's mental health and young offender services; funding for child care services for low-income families with young children; funding to help support children and adults with developmental disabilities; and adult services, such as support for people with disabilities and for victims of domestic violence and their children.

Along with the Ministry of Health, the Ontario Women's Directorate and the Ontario Native Affairs Secretariat, the ministry also supports the Aboriginal Healing and Wellness strategy, which aims to improve health and reduce violence in First Nations communities.

Ministry staff are working to implement reforms in almost every part of our business. One of our priorities is child welfare reform. The ministry is responding to public concern that more needs to be done to protect the province's most vulnerable children. Additional funding has been earmarked to provide better training for front-line workers, increase the number of child protection staff and revitalize foster care.

The ministry continues to focus on early intervention and prevention for children at risk. Our Healthy Babies, Healthy Children initiative, a vital new program that identifies and arranges support for at-risk newborns and their families, is well under way.

We are also implementing the multi-year Making Services Work for People initiative. The goal here is to restructure social services to better meet client needs. We are introducing changes to make the system more efficient and effective for the people it serves.

I would like to turn now to the specific issues before us today. I want to acknowledge the important role played by the Provincial Auditor in calling for the greatest possible

accountability and for the prudent and responsible use of taxpayers' funds.

Any organization selected for an audit — and we have many times been selected for an audit — will naturally feel the heat of the spotlight, but that's a good thing. It's one more incentive for the members of that organization to work efficiently and professionally and to strive to be accountable for one's actions, decisions and relations with other organizations.

We are here today to discuss the auditor's findings with regard to the accountability and governance of transfer payment agencies. The audit, carried out in the 1996-97 fiscal year, was a new type of auditing exercise for the ministry and for the auditor. We learned much from the process and welcomed the auditor's report, which was tabled in the Legislature on November 25, 1997, and agree with his findings.

I'd like to spend a few minutes talking about what the ministry means when it uses the term "transfer payment agency." The ministry plans, arranges and funds a great many services, but most of them are delivered by community-based, mostly non-profit, agencies. These are known as TPAs. The ministry works with more than 3,100 such transfer payment agencies and in the 1997-98 fiscal year provided them with about \$2.1 billion in funding.

The TPAs include a range of organizations and groups, such as child care centres, women's shelters, hostels, group homes, associations for community living, first nations groups, municipalities, children's aid societies and child and family intervention programs.

As the auditor noted, many of the ministry's TPAs owe their beginnings to dedicated, grass-roots groups of volunteers who initially provided social services in their communities with little or no public funding.

The auditor also observed that services delivered by the TPAs have expanded over time, owing to increased social need and to a general trend towards community-based care. To this day, many of our social services are delivered by community-based agencies with volunteer boards of directors. They receive provincial funding, but they are independent organizations that must meet the requirements of the Corporations Act. Our ministry is accountable for the services provided with our funding, but we do not manage individual agencies.

A number of the TPAs we support also receive funds from other sources, such as other levels of government, the private sector, foundations and fund-raising activities.

The objectives of the auditor were to assess whether the ministry had established and communicated to its TPAs reasonable expectations for their accountability and governance and whether the ministry had procedures in place to determine whether transfer payment agencies were meeting ministry expectations.

As I mentioned earlier, many of the TPAs began as charitable, volunteer agencies that sprang to life to meet local needs. They carried out important functions and still do, but traditionally, it has been difficult to measure their outcomes. This is widely true in the field of soft, or human, services. We certainly are far from building the

science of governance and accountability in the world of human services that we need to have.

Nevertheless, we have been taking clear steps to ensure that transfer payment agencies use provincial funding in an accountable and responsive manner. At the same time, we respect the need for TPAs to function efficiently and, for the most part, independently.

The auditor has raised a number of legitimate concerns about accountability and governance. Much work remains to be done in this area, but I do wish to say that across government and in this ministry very real efforts have already been made to ensure improved accountability and governance over the part of the TPAs.

I will take a minute to talk about business planning. It's been three years now that all ministries have been required to produce an annual business plan. The process of developing the business plan is perhaps as crucial as the final document itself. It requires ministry staff to focus on our current and future priorities, to state our goals, and to set forth ways to measure and evaluate our efforts in reaching them. This process also makes us keep an eye on the accountability of TPAs and the results they achieve.

The auditor noted that the ministry should attempt, where practical, to establish measurable and meaningful service outcomes to help determine whether TPA services are effective, appropriate and represent value for money. The ministry agrees with the need to set out measurable performance targets and indicators, compare results to targets and monitor the cost of achieving results. Establishing and monitoring service outcomes is a complex undertaking, and we've begun to address this concern in stages.

As part of our 1997-98 annual business plan, the ministry established initial performance measures for its accountability to the government and to the public.

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I'd like to take a moment to describe how we are refining our existing performance measures and developing additional measures with regard to child welfare and young offenders.

We have developed a standard risk assessment model that all children's aid societies must use to determine eligibility for services and to assess children's safety. We have enhanced training for child protection workers. We are developing new technology to help workers get the information they need to protect children. By reviewing more than 3,000 child abuse and neglect cases, we have conducted an external examination of the case management practices of all 55 children's aid societies. We commissioned an external review of the way the ministry upholds its legal responsibilities to hold children's aid societies accountable for their work.

The step-by-step reform will continue to improve our management of the child welfare system as well as the management of child protection services by children's aid societies. The ministry will continue to set out clear directions and expectations for boards of directors of CASs. The ministry will set standards in key areas and monitor compliance, and we will enhance our own ability

to monitor children's aid societies. We will develop a comprehensive child welfare database for the purpose of collecting and analysing child welfare outcomes in Ontario, and we are developing a new funding framework for children's aid societies that will ensure more equitable funding based on province-wide benchmarks.

One way that we will determine the effectiveness of our efforts to reduce youth crime will be to introduce reduced recidivism as a new performance measure. The auditor has also recommended that to ensure that funding for services is equitable and appropriate, the ministry should critically assess requests for funding and ensure that the amounts approved reflects a demand for and the value of the services in question. Actually, the ministry already does this in the course of its annual budget negotiations with each TPA, and we recognize that we need to increase our efforts to rationalize service costs.

Recently, the ministry completed a study on the levels of support provided for residential care programs and developmental services. We sought to find ways to quantify the residential support provided to individuals and promote a more equitable distribution of resources. Stakeholder groups involved in developmental services expressed concern about the study, and as a result, we have asked a community-based advisory group to review the study results and report back to the ministry.

With respect to children's services, ministry staff know that funding now varies for individuals with similar needs and that there is a requirement to rationalize costs. Our levels-of-support project will set provincial benchmarks linking funding to appropriate levels.

The auditor also raised the need to improve the effectiveness of the ministry's annual program expenditure reconciliation, or APER, as we call it. The auditor suggested that to obtain useful information for subsequent funding decisions, the ministry should ensure that the reconciliations and that the TPA's financial statements contain enough detail to allow for the detection of ineligible expenditure items.

We agree with the auditor on this point and we've taken steps to inform agencies about the ministry's financial policies. The ministry's APER form and instructions underwent an extensive revision this year. The APER instruction package we issued to agencies contained all the relevant policies, including extensive lists of eligible and ineligible expenditures.

The auditor also suggested some means by which the ministry could more effectively oversee services delivered by TPAs, and the ministry agrees that it must ensure that TPA representatives understand and agree to their roles and responsibilities. We are developing a comprehensive performance management system that links business planning, performance contracts and service management.

Additionally, the ministry has just recently implemented its services management information system in all of its area and local offices. The system helps us monitor the financial management process and performance of TPAs.

The auditor went on to suggest that the ministry establish the roles and responsibilities of boards of directors in terms of their accountability to the government. He also suggested that we provide guidance on operating procedures to meet ministry program objectives economically, efficiently and effectively. The ministry agrees that it must define the results it seeks from the TPA boards of directors, that it should monitor and measure results and that it should evaluate any given agency's performance in light of its contract with the government.

Governance policy is sufficiently important to us that we have now established a locus of responsibility for it within the ministry. I would add that despite all of this work, we still have some way to go in knitting our governance framework together. We are currently working on an analysis of gaps in ministry governance policy, and once we've had a chance to review the results, we will determine what further actions need to be taken.

As I mentioned at the outset, the ministry has a complex but extraordinarily important agenda. We recognize that the public rightfully demands increased accountability from government, and that includes the nature of our ties to the transfer payment agencies that we fund.

I'm pleased to have had this chance to share an overview and I look forward to answering any questions the committee has.

Mr Chair, may I take a minute to introduce my assistant deputy minister of program management division, Kevin Costante.

The Vice-Chair: Welcome. We'll start with the government side. We'll do 10-minute rounds.

Mr Terence H. Young (Halton Centre): I'd like to reconfirm what you said. You said you have 3,100 mostly non-profit agencies that deliver the services; \$2.1 billion in funding —

Ms Herbert: That go to those agencies.

Mr Young: That go to those agencies. I'd like to ask you, with regard to accountability, how do they report to you? Let me tell you where I'm going with this. Is there any kind of standardized reporting form or do you provide them with a software program or do they all use a similar software program so that you can look at financial benchmarks on operating costs, and then also the performance measures as well, so you'd have an apples-to-apples comparison? I know that might not always be possible, because each community differs and the needs they serve differ. But, for instance, children's aid societies would be similar, at least there would be many similarities in each community.

So what I'm wondering about is the operational cost — how do you measure it and is it standardized? — and then, on the delivery of services, how you're improving it to make sure they're getting the absolutely best services for the dollar.

Ms Herbert: All our transfer payment agencies have a service contract with the ministry. That's a standard contract that outlines their obligations to the ministry and the ministry's obligations to them. Included as part of the contractual obligation is financial reporting on a quarterly

basis. As well, because we have now in place an information system across the province, it enables us to take that information and roll it up to head office. That's a fairly recent achievement.

Mr Young: Could you describe how that works, please?

Ms Herbert: What would happen is that an agency would send its reporting into the area office, which would then input it into the information system.

Mr Young: So it's still done on paper?

Ms Herbert: Yes. Our intention, and we're exploring this, is to see if we can't do it by software. Our first goal was to try and get the ministry's internal information system organized.

Mr Young: How are you doing with that?

Ms Herbert: Well, it's been introduced this year and it has the usual, normal bugs you get when you put a brand-new information system in place, but it appears to be working.

What I would have to tell the committee, though, and I would have to tell you in response to your question, what we haven't done and what we're working on is standardized benchmarks for costs. We've done substantial work in child welfare and we've looked at other jurisdictions across the country and across the United States to see what some benchmarks are that we might use in child welfare. We just recently received approval to take out a new funding formula, based on benchmarks, to the children's aid societies. It'll probably take us a couple of years to roll it out. Then we will be able to answer the question you have asked, which is, can you compare apples to apples?

Mr Young: Let me give you an example. There's one children's aid society I know of that at one point had signed a lease which in a former economy, seven, eight or nine years ago, was probably the going rate for rent. But as the taxpayers told all levels of government, "We don't have any more money, so you've got to look for better ways to do things." In looking at it, it seemed very high. Then they couldn't get out of it; they'd signed a five-year contract.

I'm wondering, is there a time when you get your directors together, just to pick children's aid societies, but not only them, and share ideas so that you have not just benchmarking but best practices for a whole range of administrative things? Is there a time when that happens?

Ms Herbert: The ministry, and usually the provincial organization that supports it — so if we use the children's aid societies, there's an association of children's aid societies for Ontario. What we would do is sit down together. The directors of CASs meet at least once a year and often twice a year. The ministry is invited to those sessions and there we do some best-practice sharing. Certainly in the development of the benchmarks for CASs, that work has been done with the CASs. They have an advisory committee that advises us on that.

Where we would propose to go, if I can use your administrative example, is that we would set a cap for administrative costs and then what we would do is allow

the CASs, within that defined administrative benchmark, to choose how they spent that money on their administrative costs. Some may put more money into leases and less into software. But what we want to be clear on is what amount of money the province is prepared to spend for administration and what a clear definition of administration is.

1050

Mr Young: That's on the administrative side. On the service delivery side, how are you improving service delivery and accountability for service delivery?

Ms Herbert: Two ways. The province, when it was clear that the children's aid societies were not meeting their service demands, immediately announced \$15 million, which in essence translates into about 220 new staff across the province. That's been under way for some time; the allocation of that money is out and societies are hiring their staff. The government also announced in the budget, over three years, \$170 million which will go out to the children's aid societies for a variety of purposes.

In putting that money out, what we're going to use are the new benchmarks. There, what we've done is looked at what's adequate: case load ratios; what are adequate foster care rates; what are benchmarks that will improve the system and allow some consistency both in service levels and in funding benchmarks across the province.

Mr Marcel Beaubien (Lambton): Thank you very much for your presentation. I'm glad to see that you mentioned standardizing of benchmarks for costs. You did not talk about it during your presentation, but in the discussion with Mr Young you brought it to the fore. I want to direct my question with regard to residential care. Whether it's low, medium or high service, we have a wide range of daily costs for care. Why?

Ms Herbert: There are probably two main reasons I can give you. One is history. If you started your program in the days when there was lots of money and there always appeared to be lots of money, that became what we would call your historical base funding. Depending on when you came into the system and established your program, you might have had a more generous allocation of funding. On the other hand, there is a legitimate and wide-ranging level of support that individuals need, so programs designed for different levels will receive different levels of funding.

I think the problem the ministry's been struggling with is, how do we know in a more clear and scientific, if I might use that word, as opposed to instinctive, approach to how you set those budget levels, how you measure hours of care, staff costs, staff salaries?

We've been working very hard, particularly in the developmental services area, to establish what we call levels of support that will give us some opportunity to measure the support an individual needs and then apply a costing factor to it. Once we have that tool in place it will allow us to more rationally move money around the system. As we develop new community-based programs, because the government is reinvesting its money from the closure of institutions into the community, we'll have a better rational decision-making process for budgeting.

Mr Beaubien: It's a personal observation on my behalf, I guess, but I have an agency in my constituency that has been doing a very good job for a long time, and the community and I think an awful lot of people would vouch for that. I agree with your assessment of why we have a difference in costs: probably habit and when the system was started. But this particular agency always seems to be under the gun by the regional office or from your ministry. I think they're very cost-effective and they provide a very good level of service. I think sometimes they are an embarrassment to other agencies because they provide the service at less than half the cost that many other agencies provide the same service somewhere else.

We also have a study with regard to one-stop access to services, which I'm very supportive of, which makes an awful lot of sense. But when we're looking at residential care in the ministry and the experts tell us they're trying to get the young person, and I'm not talking about healthy babies here, I'm talking about young adults, to reconnect with their family, what I have difficulty understanding — because I am not a social worker and I'm not a social expert; however, I think I'm a reasonable person — is in many cases there's no family to connect with, yet the ministry wants to reduce the residential care. It is a known fact that young male adults offend at twice the rate young female adults do, at least by today's standards. Yet they want to reduce the number of residential care beds in the community for young males and young females to the same level. Can you explain that to me? What is the rationale behind that?

Ms Herbert: I'm going to ask Kevin to respond to that.

Mr Kevin Costante: Part of the rationale is that we find that residential care in terms of dollars per day is the most expensive type of assistance or support that we can provide to young people. When we're trying to reduce the number of beds, it is really to move that money more into community supports to provide assistance to a larger number of young people. So it's really trying to stretch the dollars and also trying to deal with them in their own community in a much more inclusive way that maintains them there as opposed to having them put into more expensive residential care. Obviously that's not a 100% solution; you have to have a mix of both. It's trying to find that right balance that we always struggle with.

The Vice-Chair: We're running out of time. We have to go to the Liberal caucus. Did you get an answer to your question, Mr Beaubien?

Mr Beaubien: I'll come back next time around.

Mr Jean-Marc Lalonde (Prescott and Russell): Thank you again for coming down to explain to us in more detail the changes that happen in your program. I will have to leave pretty shortly because I have to speak on the next bill, but I do have a few questions.

You mentioned, Ms Herbert, that you have standardized the benchmark and also that you're using a funding formula. My question is, when you standardize the benchmark, are you taking into consideration the rural areas vis-à-vis the urban sector? Because if we look at the CAC, for

example, it would require for the same number of pupils, the same number of children that you have to take care of, a lot more social workers to work with those people because of the travelling they have to do. If I look in my riding, for example, but it's the same up north and in other areas, the employees might spend a couple of hours on the road before they reach the homes of those people. Have you taken this into consideration?

Ms Herbert: What we're looking at is a range within each benchmark. We recognize, particularly in northern Ontario and large rural jurisdictions, that the time of travel and the cost of travel are factors. So as we look at each benchmark, there will be a range of benchmarks. In fact my ADM, who is responsible for operations, has on his plate right now a task to look at the cost factors between rural jurisdictions and urban jurisdictions. We are aware of that issue and trying to build it in.

1100

Mr Lalonde: I'm glad you mentioned this, because when I look at the Ministry of Education, they have completely forgotten to look at it. When it comes to looking at space availability for children in the classroom, the standards are the same in the urban area as they are for the rural area. So they have to take into consideration the travelling.

It was also mentioned that you have 31 non-profit agencies. Not to go into detail, but is it possible to send to our office a list of those agencies that you recognize?

Ms Herbert: It was 3,100 transfer payment agencies, and we do keep a regular mailing list. If you would like that, we can provide it.

Mr Lalonde: My last question before I go into the House is, I was told just a couple weeks ago of some changes that your ministry came up with, especially in the FBA. The employees were advised on June 2 that the changes were happening, and it took effect on June 1. I don't know how you channel the information to the agencies or to the municipalities. This is creating a real headache not to only the social workers but also to the constituents.

Ms Herbert: I assume we're talking about the proclamation of our new legislation, which came on June 1, the Ontario Disability Support Program Act. That act has been in the House and under way, I guess, for about the last year. There was substantial training done in the months of April and May, and there were communication packages that were sent out during that same time period. I certainly don't doubt that what the workers told you was correct. I would hope that's a glitch and I would be pleased to follow up if you have the locations.

Mr Lalonde: The people who had applied to be recognized under the FBA program had received notice on May 29, for example, that they had to appear in front of a committee or board on June 10. Everything was settled, they had everything in writing and all of a sudden they find out after June 2 that this does not apply any more, that they have to wait until they get their forms from your ministry here in Toronto and it's not to be handled by the municipality any more. Was there no flexibility in this

case, the fact that the families were advised prior to June 1 that they had to appear?

Ms Herbert: If this was around an appeal for their family benefits, people who appealed before the act was actually proclaimed will be heard under the old tribunal system. If they appealed after June 1, they will be heard under the new tribunal system. So there is an ability to, we use the term "grandfather" the cases that were coming forward under the old legislation, so we will slowly close out those people who are in that appeal system. I don't know if I'm exactly answering your question, though.

Mr Lalonde: In this case it was not going to the appeal board; it was just that they were called in to be interviewed to see if they qualified. But prior to going over there they had to have a doctor's examination and everything. So this whole process has to be done over again, and it's costing money not to the government but to the applicant.

Ms Herbert: It would really depend on the date they actually filled out their application form and the referral took place. If it came in before the proclamation of the act, they would be treated under the old legislation. If their application was taken after June 1, they would be treated under the new legislation. So it really comes down to the date their application was taken.

Mr Lalonde: Sorry if I have to rush, because as I say I've got to speak in the House. There's more than one family who received confirmation that to qualify under FBA they had to appear in front of this board or committee that you had formed, or an employee. The form was accepted and the constituents received a letter that they had to appear on June 10 — it was not the appeal — to see if they would qualify under the system.

Ms Herbert: We're just conferring here, because the only other board might be the medical adjudication unit. If you would like to give us the details, or send the details to my office, I'll be glad to follow up. We're just not quite sure of the circumstance.

Mr Lalonde: We have more than one. If I just pick up your card before I leave —

Ms Herbert: Yes.

Mr Lalonde: Sorry, Mr Chair. Someone is supposed to be replacing me.

The Vice-Chair: You're the whip.

Ms Shelley Martel (Sudbury East): I would like to take a look at the area of service outcomes and then from there that association with how you develop a level of funding. You specifically mentioned that you had been doing work in the developmental service area where you're starting to look at the levels of support, what level is needed and how you apply your funding tool to that.

If I can use a specific example, I suspect all of us have been lobbied by the Association for Community Living because they had, at least up until a few months ago, some serious concerns with the framework that you've outlined in your new policy. I met twice with our association, both in Sudbury and in my own constituency, and also received letters from the provincial organization. My concern is the setting of appropriate outcomes and whether or not what is

being asked of people with respect to this particular area is appropriate.

The argument I was given is that the board felt very clearly that part of their level of funding was to be looking at whether their clients were improving, where they were using fewer services as an outcome. Their argument to us was: "These are clients who are not going to improve in any significant way, shape or form. We may be able to get them into day programs, although we have waiting lists, but to all intents and purposes if the client group were to measure an outcome based on a decreased level of service, or that somehow they're going to be able to improve, is just not an appropriate outcome. So if funding is linked to that, they're going to lose all the way around."

Maybe you can explain to me what's happening in the area because I know the letters I saw from the provincial organization expressed similar concerns and you said earlier that you are trying to work with the TPAs involved to sort this out. But if that's the problem that you're having with community living, do you not anticipate having similar problems when you're looking at outcomes, be it for young offenders, be it for any number of the other transfer agencies that you deal with?

Ms Herbert: I'll make a few comments, and then Kevin may have something to add. This is a very sensitive area; there is no doubt about it. Where in this province there has been the most measurement of care needs has been in the long-term-care area measuring what are care needs for the formulation of per diem rates.

In the developmental services sector, they feel that the measurement of illness, if you like, how much care you need from an illness perspective, higher care meaning you're more ill, is inappropriate, because they feel that people with disabilities shouldn't be treated as if they're ill. We've been struggling to find a way to measure care needs without casting it as an illness. If you cast it as lifelong support and look for outcomes which measure wellness, it does carry you down the track of looking to see how people are improving with their care.

The ministry's intention is not to use the levels of support tool to take money away, but it is the ministry's intention to look at a way, to go back to the previous question, that we can more adequately see how money is being spent and for whom. We may have in parts of the province people who are receiving, if I can use an example, 24-hour care because they moved out of institutions in the mid-1960s and late 1960s when we thought that people who moved out of institutions could only live in group homes. What we know now is that many of those individuals can live quite happily with support in independent living.

There's a real need to look at who is getting service where in the province. Unfortunately, back when we started this process, we did try to measure what the associations would call illness — if I can use some examples, toileting and bladder control, all those measurements of how much staff time you need — and the associations were very clear that they thought that was

inappropriate. That's about the time you probably received your letters.

What we've done since then is meet with them and try to come up with other measures that both adequately describe the level of care that individuals need and also recognize that people need lifelong support and the support will change at different points in their life and also that are sensitive to building a level of support that's based on a medical model as opposed to based on a wellness model. So we are struggling with how to ascribe this.

Then, of course, associations are nervous that perhaps this means that some of their money might go to another association that has a higher level of support requirements. It makes people anxious. Our intent right now is just to get a picture of who is receiving service at what level in the province.

Mr Costante: I don't know if there's much more I can add to that. We've had several meetings with the group that includes OACL, and there's a lot more work to do. They've been long, hard meetings, as they've been described to me.

1110

Ms Martel: Further to that and following up from where my colleague Mr Lalonde was, how do you take into account what might be very varying levels of ancillary services? For example, if we are dealing with clients of the Ontario Association for Community Living, they would have adults in their care who also have behavioural problems and there are efforts being made to access services in the community, that is going to be more difficult, depending on where those clients are being served. If that's folded in as part of an outcome, that also causes a problem. You have a great difference in terms of waiting lists and people's ability to access service. Is that also being folded in in terms of what you're looking at as an outcome?

Mr Costante: Part of the struggle is to try to keep the discussion around levels of care measurement really on the residential component, because, you're right, all of the other support pieces, psychiatric, medical, can all be very different and infinitely complex. So it's to try to separate those out, and sometimes that's difficult, but that's the process we go through so that you've put a box around the things you're trying to measure and don't get into a whole bunch of other disciplines that have their own measurements and varying weights that need to be added to it.

Ms Martel: Am I safe in saying that the framework end is not in effect at this point in time?

Mr Costante: We're in essentially a consultative process, having shared with them some of the outcomes of some earlier work we'd done. We're trying to work out with, in this case, the developmental services sector something that everyone can agree on. There's a lot of buy-in for it. That's the stage we're at.

Ms Martel: In the same way, under developmental services, a comment struck me earlier with respect to youth crime and looking at recidivism rates as an outcome.

Can you just explain to me further what you're looking at in this?

Ms Herbert: The ministry has had a lot of activity under way in the last four or five years on the young offender system, looking at best practices and research about what works to reduce youth crime and what works to keep people only at the very front door of the young offender system and not into the more intrusive parts of the young offender system, like secure custody.

While we've been doing a lot of research and a lot of program planning, what we haven't been able to do is measure whether kids come back into the criminal system once they've left. This is true, actually, across the country, that we've been unable to measure whether our programs are successful, because we haven't been able to measure whether kids turn back up on a charge when they're 18 as opposed to when they're 14, because we can only follow the system through to a certain point.

We're part of a national research study looking at establishing a way to measure recidivism. Then we can actually see whether our program assumptions are correct, that if you work with young offenders in a particular way or if they're sentenced in a particular way, that will have an impact on whether they're going to reoffend or not reoffend. So we've been doing a fair amount of good research, and then as a performance measure in our public business plan we've committed to being able to measure recidivism in Ontario.

Ms Martel: When you're dealing with your transfer payment agencies, in terms of both reconciliation measures and trying to look at governance and other accountability questions, who has responsibility, is it the director in the area office, to deal with the transfer payment agencies and their jurisdiction with respect to reconciliation and other governance issues, or do you have dedicated staff in the ministry or another part of the ministry to look at that, and how many?

Ms Herbert: In the particular case of reconciliations, the area offices are accountable for doing the reconciliations. They report their reconciliation results to Kevin, as the ADM of the program management division. As well, at head office we keep a group of staff who have some expertise in this area to help the area offices. But the primary locus of responsibility is at the area office.

Mr Beaubien: I'd like to go back to residential care. It's interesting that you mentioned in your reply to Ms Martel's question that you don't have any way of measuring whether the young person reoffends or gets back into the system down the road. I want to tie this back to my earlier question on residential care. I agree with the system you're trying to introduce to reconnect the young person to the family. It's got a lot of merit. However, what I have an awful lot of difficulty rationalizing is getting rid of the residential care or some of the residential care level that we are providing now when we have not measured the output or we have no indication of what the output is.

If we look at what has happened in the States — I met with a social worker, who happens to be a PhD, by the way, from Tennessee — apparently in the States, at least

in Tennessee, they tried this exercise of trying to connect the young person to the family, but they did not reduce the level of residential care they had at that time. Why is it that we in Ontario want to follow this process but we are reducing the number of residential care beds?

I agree it's expensive, and I don't know what "expensive" means, but if looking after a kid is costing \$80 a day and we're doing a good job with that person, I'm willing to pay that. I may not be willing to pay \$250 a day, but some residential care facilities can provide it at \$80 a day. Can you explain that to me?

Ms Herbert: I think the key question is always, what's the right service for this child that will ensure that they become productive adults and reduce their future cost to the taxpayer? For some children, residential care is the right option, there's no doubt about it. For other children, it has not proved to be effective. Through research and clinical practice, it's important that we're matching the right kids with the right program, or what happens is that you may have someone in an expensive program for whom you're paying high cost just to contain them, not to re-connect them, not to make them productive citizens but just to keep them somewhere. On the other hand, you might put a child in a program like that and it really helps them and is exactly what they need to help them grow up healthier than they were when they went into the program. Really the question is a match.

In the late 1960s and early 1970s, residential care was thought to be the panacea; it would solve all problems. Take kids away from their families, put them in group homes, and somehow by paying staff and having a psychiatrist you'll make them better. We know now, through practice and through research, that it's not a panacea. It works with some children but not with all children.

The real question is, what's the right balance at the right cost? The ministry is struggling with the answer to that question. We do believe, as Kevin has said, that it's time to begin to shift the residential system, which grew up in the 1960s and 1970s, and begin to shift some of those costs to prevention and early intervention, to move money into serving those kids when they're younger in the hopes that they'll never need high-cost, expensive residential care.

I don't know the particular circumstances in your community, and it does vary by community across the province, but that's the approach we're taking generally.

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Mr Beaubien: I agree it's difficult, and I don't want to zero in on one particular agency, because I have discussed this with the director. You're trying to get the proper match, and we have low, medium and high care. But then when you talk to directors of the facility, and I'm only going by the information I'm given, they say, "The kids we handle here are basically at the same level of that other facility."

Why I'm a real stickler on this one is because your ministry, in my region, is trying to cut the residential care at \$80 a day, but the ones at \$180 to \$250 a day remain untouched. I have difficulty — I'll buy your argument on

this side of the equation, but why is it that the argument doesn't apply on the other side of the equation?

Ms Herbert: Just to go back to establishing levels of support, the picture that you painted is exactly why we need to have a levels-of-support benchmark, so that we can begin to measure why there are cost differences and why they are legitimate or not. There may some very real and very legitimate reasons why some programs are more expensive than others. It would have to do with the nature of the child and also what the clinical support costs are that are built in to serve that child.

At this point the ministry may know — I think the Provincial Auditor would say this, if I can pretend to be the Provincial Auditor for a minute — that what the ministry doesn't have is a system which is rational and explainable beyond history and what the area office can describe as the program elements. We need to be better able to describe the level of support and how it matches the child's needs, and that's the piece of work we have under way right now.

Mr Beaubien: Basically you're telling me you're realizing that measuring the output, the results at the end of the day, must come to the fore.

Ms Herbert: Exactly.

Mr Beaubien: Another quick question, if I may. When you're talking about the standard risk model for children handled by the children's aid society, as Mr Lalonde pointed out, are there different standards or criteria for rural as opposed to urban, or are they all treated the same way?

Ms Herbert: The risk assessment model has just been introduced and is used in all CASs across the province. It allows for some room for worker judgement, which we would all want to have, but it prompts the worker to ask and assess the same questions and the same environmental issues standards across the province. It will tease out regional differences. There are differences, for example in a risk assessment, if you were doing it on a first nations community north of Red Lake, than you might in Chatham or in Windsor. So there are some differences brought to bear, but generally the risk assessment tool is the same across the province.

Mr Young: I saw on the news last night there was a protest. Some OPSEU workers were protesting, and I understand there was a press conference yesterday. What they were protesting was a proposal for alternative service delivery plans for young offenders facilities. I know that a lot of the unionized workers provide excellent service and excellent care, and there are others who may not be in unions who could also do the same, but I think the issue is the standards, and you set the standards. I would like to know what you're doing to establish the standards so that any young people served in the new model will be served as well or better.

Ms Herbert: I'll let Kevin describe the standards to you. I would just say that in our secure custody system the ministry has directly provided some programs with its own staff and then we have had transfer payment agencies provide the same program in other parts of the province.

We've had what we call a mixed system — the same program, admittance through the court proceedings — but roughly half of them have been run by the ministry and half of them by transfer payment agencies.

Having said that, Kevin, you may want to talk a little bit about standard setting.

Mr Costante: First of all, as Sue said, we demand the same standards of our own directly operated facilities as we would demand of the transfer payment operators. Essentially we want to make sure they're in compliance with the legislation, in this case the Child and Family Services Act. As well, we have a young offenders' manual that lays out a number of policies that we expect each operator and our own agencies to follow, things like standards around programs and services, security, staffing, safety and emergency procedures, and policies around behavioural intervention. Those are all laid out in a fair amount of detail. We expect each agency to comply with those standards and go beyond if they wish.

Mr Young: How do you enforce the standards?

Mr Costante: Essentially, we have an annual licensing process and we have program supervisors who deal on a regular basis with those.

Mr Young: Do they talk to them? Do they go into the facilities and walk around?

Mr Costante: Yes.

Mr Young: Do they do that sporadically? Do they just drop in, or do they make an appointment and go and see them on their best day?

Mr Costante: It's done on a regular basis. It can be a mix of sporadic and on an appointment basis.

Mr Young: Let me just tell you why I'm concerned. During the OPSEU strike I went to Syl Apps because children had been locked in their cells for two days, only allowed out to go to the washroom. That portion of the strike internally was actually quite illegal. I'm very concerned about this. I think you have to drop in. I think you have to surprise facilities. Would you agree?

Mr Costante: Yes, I would agree.

Mr Michael A. Brown (Algoma-Manitoulin): I'm also interested in some of these direct accountability issues, particularly around volunteer boards. Volunteer boards are great things, with people interested in the community who serve on them, but it's been my experience they're not always broadly based in the community and that uncharitable people might even refer to them as almost private clubs. They often reflect a very small number of people and the organizations often have a very small number of actual members and often don't seem very interested in recruiting broadly in the community.

I'm just wondering, does the ministry have any kinds of criteria relating to these not-for-profit organizations that provide service to make sure their membership and their boards are reflective of the broader community?

Ms Herbert: First of all, all the boards of course have to meet the Corporations Act, and for those that are not-for-profit, most of them generally have to meet the federal requirements for charitable organizations.

The ministry has been struggling to find the right balance between the independence of boards and the desire to keep them community-based for all the reasons you outlined, and at the same time make sure that boards represent their communities and understand their role as boards to govern the programs. In the children's aid example that I used, there we are going to prescribe some more stringent requirements around community representation and the nature of expertise that's required on a board that is in the child protection business.

We also have what I would call some best-practice requirements that we suggest boards use. The United Way has very good board development programs and we've encouraged our agencies to use the United Way board development programs. It is a struggle to find the right balance. Our belief is that if we can be clear with boards about what we expect around board training and about community membership, and then if we're clear about what we expect them to govern and what the outcome and benchmarks of the program should be, that whole package would be a good balance between our need to have them represent their communities and our need to have them deliver programs, but you raise a good point, particularly for small agencies.

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Mr Michael Brown: It's not just small agencies. I represent geographically a very large chunk of the province of Ontario. You will find, for various reasons, that certain agencies are fairly broad-based geographically where others seem to be, for whatever reason, fairly narrowly geographically based.

I have an example which happens not to be in your area but in the Ministry of Health, where recently a volunteer board, who are unpaid and are all good folks, were electing their board of directors. In this instance, they had not done much of a job of recruiting members, and one geographic portion of the area decided that they were quite miffed they had no representation and sold a lot of memberships.

The ensuing angst at the board that they may be taken over — I presume what happened is they got very excited about the fact they might be taken over by a relatively small geographic area — resulted in the executive director making a number of phone calls and disallowing quite a number of memberships and that sort of thing. This was in health, but it could have been in your ministry just as easily.

I sometimes come back to that: Is this a private club? How do we broaden the base? Do you have criteria? You suggested you encourage, but do you have criteria that say, "Look, you really have to actively recruit people to be members"? Because most of these agencies do have a strong interest across the community and yet often don't, in my experience.

Ms Herbert: We do not at this point prescribe membership as part of our contractual relationship with boards.

Mr Michael Brown: So there's not a strict accountability in terms of —

Ms Herbert: I think we have been keeping our focus on making sure that boards have the right expertise to govern their programs, and then, the other side, were they delivering value for the dollars and the service outcomes that we were demanding? Those have been the two pieces that we have been concentrating on.

Mr Michael Brown: My own view is that part of that is making sure they're broadly enough based that the community will enforce some of that.

Ms Herbert: That's a good point.

Mr Michael Brown: Micromanaging from your point of view is impossible; otherwise, you'd just do it yourself. What you need, if you wish to maintain standards — the province obviously does not have enough people going in to inspect and probably never could under any circumstances, but particularly now. The way you will get reasonable standards is at the community level where they actually know what's going on in their own communities.

Ms Herbert: Yes. The element of a board's accountability to its own community is a very important accountability measure. I agree with you.

Mr Michael Brown: Is the ministry considering any kind of minimum number, a percentage of population or some kind of criteria to make sure? My experience is they can always get members. The problem is, most people don't even know that you can become a member.

Ms Herbert: In the CAS, the child welfare area, which is where we're doing the most work on boards right now, that's one of the elements we have under consideration. In our whole attempt to grapple with governance and accountability, we have really focused on starting on child welfare first and then on levels of support in the disability area. What we do in those two program areas will then pull out to the rest of our programs, so we are looking at what we need to have prescribed in boards in the child welfare area.

Mr Michael Brown: Given that often the agencies we are concerned with deal with our children, are you satisfied that your internal mechanisms for determining outcomes are satisfactory both from the point of view of value for money and from the point of view of optimizing the outcome for children, which isn't always the same?

Ms Herbert: I don't know whether it's a career-limiting move for a deputy to directly answer a question like that, though what I would tell you is, no, I'm not satisfied. I think we have a lot of work to do in the ministry. I think we've made a really good start. The Provincial Auditor's report was very helpful, but we have some measure to go before we get there. Where we're furthest along is in child welfare and in our services to people with disabilities, both of which are our largest program budget areas, but we have not covered all the bases, and that's what we're working towards.

Ms Martel: Let me follow up on that point, because it brings me back to a concern that the auditor raised in terms of their overall audit observations. You made it clear to the committee that the greatest amount of work that has been done around governance and accountability comes in developmental services and child welfare. I think

that some of the work you're doing in child welfare is not driven so much by the auditor's report as by the results of the inquests, which is fair enough.

Having said that, it appears that a large number of transfer agencies that you have — in the other areas there's been very little work done, or some work done, but certainly not all the work that needs to be done. In what areas, then, is the ministry looking to either outsource or privatize?

The reason I ask the question, because it also came from the auditor's report, is, if that's where the ministry is heading in other areas where some of this important work has to be done, how would I have any comfort at all that the public dollar is going to be spent any better?

Ms Herbert: The ministry has announced that it is going to what we call alternative service delivery in the young offender secure custody area, which is the question that was asked earlier. The other area that's been under way for some time, for 20 years in fact, is the closing of our large facilities for the developmentally handicapped, who are moving out into the community. The government is reinvesting the dollars that it takes to run institutions and putting those out into community programs, primarily residential supports. That's one of the reasons we've been working hard on levels of support in the developmental services sector. Those are the two areas where the ministry has been moving out of its own directly operated services and into community-based programs.

Ms Martel: In terms of your mix for the residential support, what is your mix of non-profit agencies providing residential service and for-profit agencies providing residential service? Is that a fair question?

Mr Costante: This is off the top of my head, so give or take a few. I think of the 103 or 104 young offenders facilities that we have — that's both open and secure — around a dozen are for-profit and the rest are all not-for-profit, with the exception of seven that are directly run by the province. So seven run by the province, about a dozen by for-profit, and the rest are all transfer payment non-profit agencies.

Ms Martel: What about on the side of developmental services? You talked about the ministry closing —

Mr Costante: I'm not aware of any, but we could check.

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Ms Martel: So at this point I would have no reason to be concerned yet about what's happening on the residential side for developmental clients. But on the young offenders side, I didn't get a sense that clearly a lot of work had been done. We talked about the need to have outcomes actually measured around recidivism etc. Why would the ministry be making any move to outsource in that area when, from what I've gathered here today, some of the important issues around outcomes, accountability and governance are not really resolved?

Ms Herbert: The ministry's business plan talks about the ministry's desire to move out of direct delivery as a long-term goal. In the young offender area we had been, my guess would be, for about the last 12 or 14 years

moving our young offender system to a community-based system. In the previous administration that initiative was stopped. So this is kind of a historical movement because of the ministry's belief that it shouldn't be in the direct delivery business any longer. Also the philosophy that the ministry has had over many years is that programs can be run and are better held accountable in the communities than they are directly run in large settings by the government.

It's been a long-term approach that the ministry has taken. Our young offender system is for 12- to 16-year-olds, and we've long wanted to make sure that the system was tied to the children's services system world, which the ministry does not directly run, rather than to a more traditional correctional model. Part of the ministry's thinking was that you needed to tie our community-based young offender programs to the children's community and keep those kids close to home. It's been a long-term kind of philosophical approach that the ministry has taken.

Kevin, I don't know if you want to go back to how we're managing the standards. This is one program where we really do have province-wide standards. We have one provincial director who manages the placement of children. It is a tightly managed program with a legislative and directive system.

Mr Costante: I spoke about that in my earlier comments.

Ms Martel: Can you tell me how many inspectors the ministry has to deal with transfer payment agencies?

Ms Herbert: We have several kinds. We have licensing officers, and I can't — unless, Peter, you can pull a number out, my numbers gentleman here. We have licensing officers across the province who licence a differing number of programs and then we have program supervisors. Those would be our primary monitors in the community.

I'm sorry. I'm unable to give them to you off the top of my head, but we can provide that to you.

Ms Martel: I would be interested in having a sense of — I'm assuming your program supervisors actually go into facilities as well?

Ms Herbert: Yes.

Ms Martel: So both sets.

Ms Herbert: Yes.

Ms Martel: That would be interesting, because then we could have some sense of that number compared to 34,000 TPAs and what the likelihood realistically is of what kind of inspection level you can maintain given those numbers.

The final question that I have has to do with the Management Board directive around transfer payment accountability. We were told earlier by the auditor's staff that they have been able to have some input into the development of the new directive, which it appears will be tighter than the one that has been in place since 1989. Can you give the committee some sense of what areas will be tightened up with respect to what you've been doing or matching your work against now, which is a 1989 document?

Ms Herbert: I'm just looking back. I actually had this earmarked in my speech and I decided you would probably be bored if I read you back the accountability initiative, so I'm just flipping back to that section in my speech.

I think what the accountability directive really pushes us harder on is benchmarking, and benchmarking in soft services. We recently completed a review of North American jurisdictions to see what other people had already developed in benchmarking in human services, because if there were some good ideas out there, we didn't want to have to spend a lot of time creating them. Unfortunately, there is not a lot of measurement of outcomes; there is a lot of measurement of process. I think that's really the challenge that the new accountability directive is going to push us on.

If I can go back to the young offender example, we can measure how many children we have in the young offender system. We can measure how in our small system they come in and out. We can measure whether their program is a good program or not, but we can't tell you whether it has an impact on keeping them out.

It's the same if we talk about children's programs. Does having a child in a residential program have an impact on the quality of their later life? It's those kinds of benchmarks, outcomes for dollars, that are very difficult for us to measure and that we're really struggling with. I'm hopeful, though. There's a lot of dialogue going on about this, certainly in the province of Ontario, and across Canada. I'm hopeful we're going to develop some very key outcomes. The trick is to not develop the wrong ones, but to develop some very key outcomes in our program areas. We've tried in our public business plan to be clear about what those outcomes will be. But it is a struggle.

Mr Joseph N. Tascona (Simcoe Centre): There's been a lot of concern about the child protection system in Ontario lately, poor information sharing, increasing caseloads, children at risk while they're in the care of children's aid societies. What is the ministry doing to make sure that the children's aid societies do what they're supposed to do, which is to protect children?

Ms Herbert: The most significant item that has been introduced across the province is the standard risk assessment model, so that we're measuring adequately whether children are at risk or not. As well, we've provided more front-line staff. We have a massive training program under way for front-line children's aid society workers right now.

The government has just announced that it will be looking to see whether it needs to change the legislation, the Child and Family Services Act, to better protect children, particularly in the area of the definition of "neglect." The act does not define "neglect" and there have been, over the years since the act came into place, a number of judicial decisions which have made it more difficult for societies to judge neglect. The ministry commissioned three reports, one a legislative report that was chaired by Judge Hatton to look at the legislation and make recommendations to the ministry. Judge Hatton's

report does indeed recommend that we do legislative change and my minister has been clear that she's prepared to look at legislative change.

We also commissioned a report that looked at the ministry and whether the ministry was doing its job in monitoring CASs. That report makes a number of recommendations about how the ministry needs to improve its own capacity and ability to monitor CASs. We'll be undertaking that work in the fall.

As well, we reviewed in about six weeks' time — we put four teams of child welfare experts together who went out and did a case file audit on 3,000 files across the province to tell us whether CASs were managing their mandate in the meantime, until we could get all the reforms in place. That review revealed that 86% of the standards were met, but it made some recommendations for further improvement, so we're following up on that as well.

Mr Tascona: With respect to neglect, would there be any changes in terms of the outcomes or remedies with respect to that?

Ms Herbert: Yes. We're doing our policy work now obviously around how one might do definitions. We'll do some consultation with the CASs and other interested parties about whether we've got the definition correct and then we'll have to go back and see if that changes our benchmarks in any way.

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Mr John L. Parker (York East): I'd like to ask you about the issue of alternative service delivery. We've heard a lot about this, not only in this ministry but other ministries as well. It goes by various names, in some cases "privatization" or "outsourcing." Bob Rae used the expression, "Governments have to get out of the business of rowing the boat and concentrate on their main job, which is steering the boat." That's a concept that certainly I endorse. I think it has strong support, not only across Ontario but throughout the western world, as governments have found that they've got too deeply involved in actually delivering every last aspect of service. They've found that has interfered with their ability to direct policy and make changes in policy as new needs and challenges are identified and as flaws in the old ways are found.

I personally see that as the right way to go. I'm interested in your comments on initiatives your ministry has undertaken in that direction. In particular, my concern is, as we go down that road, and I think that's a road governments inevitably must go down, how can we ensure that quality control is maintained, and how can you at the steering end ensure that you maintain guaranteed quality and standards of service as you move to outside agencies delivering services?

Ms Herbert: In the scenario you describe there's no doubt, if we are going to steer and not row, that what becomes really important is that we have the right accountability system in place. Otherwise, we're measuring the wrong things or we're not measuring at all and we can't provide some sense of quality assurance.

I think we would come at it in two different ways in our ministry. One is to ensure we have the right outcome measurements, that we have the right benchmarks established. But then we want to make sure we have the right monitoring procedures in place. In the different transfer payment services we fund, we need to make sure that the monitoring mechanisms fit the nature of the service. In child protection, for example, which is one of the most crucial areas in the province in terms of wanting to make sure the CASs are doing their jobs, we might have a much more intrusive monitoring system than perhaps in a program that we might fund on a partial basis that has fewer safety and security issues around it.

We've also got to figure out the right monitoring mechanism to fit the program. We actually believe that we have a good continuum of monitoring mechanisms to be put in place, depending on the nature of the program. For example, in child care we license. In our children's group homes we license. In our child welfare area we're going to prescribe a new set of monitoring activities. We have to be able to describe what the service is that we're buying and how we want it to be delivered, and then we have to prescribe the right set of monitoring techniques.

Mr Parker: Are there any particular initiatives to increase accountability and establish more quantitative performance measures that you've already undertaken in this area since the last time you reported to this committee?

Ms Herbert: In presenting today, we've probably covered most of them. I would also say, because we haven't talked about this, that we've also done some work in our family violence area, our shelters for women and families who suffer from family violence, again looking at benchmarks and outcomes, and looking at some new reporting requirements in that program area as well. That's probably the one area I didn't cover in my earlier comments.

The Vice-Chair: Deputy, do you see how quickly time passes when you're having fun? I want to thank you, and your staff as well, on behalf of the committee members for joining us. We look forward to future follow-up.

Committee members, the research officer has asked for some guidance in the report and the report-writing phase. Do you have any initial thoughts? Do you want to make a comment on this?

Ms Elaine Campbell: Depending on the committee's response to my initial question, there may only be one question. I was wondering if it was the committee's wish that I spend time over the summer preparing a draft report for consideration early next fall.

The Vice-Chair: Sure.

Ms Campbell: Do I have some time to ask a few more questions?

The Vice-Chair: Yes, go ahead.

Ms Campbell: Since it is the committee's wish, I would like to remind you just what we've done since February. We looked at six individual sections of the auditor's 1997 annual report. Four of those were done in February and March, when there was a chance to spend

some time discussing what might go in a final report. We also had time to develop questions and send those questions to the individual ministries. Those responses have all been received and have been circulated to the members of the committee.

I think there was only one response in which a ministry said they would be getting back with further information. That was in the Ministry of Health with respect to public health. They were going to be providing some information in November, I believe, on immunization rates.

We've done two more sections of the auditor's report this month. There was no opportunity for discussion about a general direction after those sessions. We've also looked at part 5 of the auditor's report, which discussed accounts receivable activity. That's when we looked at the Central Collection Service. We spent one meeting looking at the 1996-97 public accounts and the reporting of contingency funds with the Ministry of Finance. Then last week after the discussion about the Ministry of the Environment's conservation and prevention division, the auditor made a brief presentation on his recent report on the year 2000 and the millennium bug, which leads to my next question: Would you want all of these activities covered in the report?

Mr Young: How many pages are you talking about, Elaine?

Ms Campbell: I hope it's shorter than last year's report.

Mr Young: How long was last year's report?

Ms Campbell: We did 13 sections of the auditor's report last year and I think it ended up being 80 pages at the end.

Mr Young: I think there should be reporting covering the areas. I don't want to give you direction on how much detail should be there, because you're the best person to judge that.

Ms Campbell: One thing I could do in the draft is incorporate a series of questions at relevant spots within the body where I ask for more direction from the committee members and whether there should be a greater focus on one area than another.

Mr Young: What do you think, Shelley?

Ms Martel: It seems to me that whatever we've got done we should do. Part of the problem last year was that a big chunk of the report was not timely because it had gone on for so long. It's far better for us to do what we have than to hold these until we get some more stuff in the fall.

Ms Campbell: Just a few more questions. I would suggest using the revised background notes format for the

introduction to each of the sections. With respect to the body, I was wondering if I should focus on those particular aspects of the auditor's report which were actually discussed in the committee, or should I stick to what was said in the basic background notes, supplementing that with the discussion from each of the sessions with ministry staff?

Mr Young: I would prefer that you supplement it with discussions of what came up.

Ms Campbell: So talk about everything that was covered in the auditor's report very briefly.

Mr Young: Mike, are you okay with that?

Mr Michael Brown: Yes.

Ms Campbell: As I've mentioned before, I'll put questions in the draft. I am also wondering if it might be possible in terms of overall organization to follow some of the suggestions the auditor had when he was presenting the contents of his report to the committee and the sub-committee in terms of theme. I think it would be very easy to organize the various sections under specific themes so the report might flow a bit better and it might be a little easier to make specific points as well. Some of the themes the auditor had used were the transfer payment accountability, managing provincial finances and transfer of delivery.

Just a few more things. Is it the committee's wish that I put some possible draft recommendations in the body of the paper?

Mr Young: Sure.

Ms Campbell: When would the members like to receive the draft, in early September?

Mr Young: What was the timing last year? I wasn't here last year.

Ms Campbell: Last year it dragged on for quite a while. I think we actually started discussions in mid-May, after the break in May, and we didn't really get around to discussing the final report until September, but we were looking at sections of it. I think we had been through pretty well everything a second time by the end of June and we just had a bit of work to do on the assistive devices section that we did last which took a bit more time.

Mr Young: What's your view, Shelley?

The Vice-Chair: Some time in September?

Ms Campbell: I could get it out in early September.

The Vice-Chair: September would be fine, I think.

Mr Young: Mike?

Mr Michael Brown: September.

Ms Campbell: Thank you very much.

The Vice-Chair: Okay, we are adjourned.

The committee adjourned at 1200.

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Jeudi 10 décembre 1998

**Standing committee on
public accounts**

Subcommittee report

**Comité permanent des
comptes publics**

Rapport du sous-comité



Chair: Bernard Grandmaître
Clerk: Donna Bryce

Président : Bernard Grandmaître
Greffière : Donna Bryce

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON
PUBLIC ACCOUNTSCOMITÉ PERMANENT DES
COMPTES PUBLICS

Thursday 10 December 1998

Jeudi 10 décembre 1998

The committee met at 1007 in room 228.

SUBCOMMITTEE REPORT

The Chair (Bernard Grandmaître): Good morning, members. The first item on the agenda is the report of the subcommittee, of which you have a copy in front of you, I hope. Any questions on the subcommittee report?

Mr Steve Gilchrist (Scarborough East): I'd like to propose an amendment, Chair, if I could.

The Chair: All we need is a motion before it can be amended. Somebody to move the subcommittee report?

Ms Shelley Martel (Sudbury East): I'll move the subcommittee report, Mr Chair.

Mr Gilchrist: Mr Chair, with your indulgence, I'd like to actually make two amendments. The first amendment is to section 1, to change "That the committee consider section 3.01 — Business Transformation Project/Common Purpose Procurement (Ministry of Community and Social Services) on December 10" to "That the committee consider section 3.01 — Business Transformation Project/Common Purpose Procurement (Ministry of Community and Social Services) on December 17."

We're proposing to change the date from December 10 to 17 for commencement of hearings on section 3.01 quite simply for the reason that the parliamentary assistant for the Ministry of Community and Social Services, Jack Carroll, is not available this morning due to personal circumstances which were certainly not foreseeable.

We're not trying to avoid hearings, rather simply postpone them for one week. We certainly apologize to the Provincial Auditor and to the Deputy Minister of Community and Social Services for the short notice of this amendment. However, both opposition House leaders' offices were approached with this issue yesterday and indicated that they wished to proceed here today notwithstanding our request for the postponement. If the committee would like, we would be willing to request the House leaders that the committee sit an extra day next week.

Ms Martel: Our House leader was approached about this last night and he said no, that the committee should sit today. I want to reinforce that by the following comment: First, Mr Chair, there was never any request made by any member of this committee, either the subcommittee or the whole committee, to have Mr Carroll, the parliamentary assistant, be present for these proceedings.

In the time that I have been on public accounts, three years from 1987 to 1990 and then the three years from 1995 to 1998, this committee has never made a request of a parliamentary assistant for any ministry that is appearing before the committee to be at the hearings. I don't see why this committee should not sit today merely because the parliamentary assistant is not here. He was not asked to be here; he is not requested to be here under the rules; no one will be asking him any questions during these proceedings, Mr Chair. The questions will be directed to the ministry staff, who I understand are prepared to come and answer questions today. So I see no point whatsoever in deferring this meeting merely because Mr Carroll, who is not a member of this committee and who wasn't asked to be here, can't be here today. He's not going to be answering any questions anyway; that is for the ministry staff to do, particularly the ministry staff who were involved in this particular issue that the Public Auditor raised. I see absolutely no reason for this committee not to sit, not to proceed today.

Mr Jean-Marc Lalonde (Prescott and Russell): I fully support the comment brought to our attention by Ms Martel. I really believe that we had scheduled this meeting today and we should go ahead with it.

Mr Peter Kormos (Welland-Thorold): Having heard what Ms Martel said, I do find good reason for the government to seek to leap today's activity and have it only on December 17, using Mr Carroll's absence as a rationale. That's because it's in the government's interest to have only one day of exposure to this issue rather than two days. But the subcommittee clearly identified two days, the 10th and the 17th, as being appropriate for consideration of business. That's number one.

Number two, the subcommittee, as Ms Martel indicated — and I'm confident she would have been corrected had she not been bang on in terms of the accuracy — never contemplated or considered the attendance of Mr Carroll, the parliamentary assistant.

Number three, Ms Martel is quite right in terms of the practice here. The parliamentary assistant is not particularly relevant to what's being queried of ministry staff, who are in a far better position to respond to any intentional or anticipated questions than Mr Carroll ever would be, and to respond to them in a non-political way.

As well, this committee has a long-time tradition of being non-partisan. That is reinforced by the proposition that it's the bureaucratic staff from the ministry who

appear here, whose responses to questions are not tempered by partisan obligations. I also would question why the government is insistent upon the parliamentary assistant being here in view of the fact that the bureaucrats are far more in touch with the day-to-day operations of the ministry. We're not talking here about the political end of the development and establishment of policy, but the day-to-day operations.

It would have been nice that Mr Carroll, if he had wanted to be here, could have been here. Understand that I'm not criticizing his absence today, because he's had compelling reasons, but he was never called upon to be here. I wasn't called upon to be here, but I just happened to be here today. I just happened to wander into this committee this morning. Walking down the hallway, I saw an open door and I said, "By God, there's a committee going on. I'm entitled to be there by right," and I figured I'd just drop in; and here I am enjoying myself already.

I understand why the government is doing this, but I find it very unfortunate because it injects a partisanship into this that is unprecedented and infects the long-standing non-partisan role of this particular committee, unique among all other committees.

That's my observation from 10 years here. Other people have been here longer, Ms Martel among others. The government's request is pretty transparent.

Mr Terence H. Young (Halton Centre): Mr Kormos doesn't have the advantage of having been at our last subcommittee meeting. I want to put on the record that at that subcommittee meeting I think we have an excellent working relationship. It's a totally non-partisan meeting. As a matter of fact, the order in which we are going to review the various things in the auditor's report was determined entirely by the NDP and Liberal members. I agreed to every suggestion they made at that subcommittee meeting. In fairness, I think we have to go on record. I'll ask you to agree to that. It was totally non-partisan.

We're asking here for a one-week delay so we get the best answers from the right person. It's a very simple thing. Again, I want to extend apologies to the auditor and the Deputy Minister of Community and Social Services. We just want to get the right answers and the best information. We're not changing the order and we've agreed to everything that the Liberal and NDP members asked to scrutinize and in the order that they asked to scrutinize them.

The Chair: Can I ask a question of you, Mr Young? I realize that what you've just said is exactly right, but don't you think that staff can be as adequate as the parliamentary assistant?

Mr Young: Well, then, why would you have parliamentary assistants?

Mr Doug Galt (Northumberland): It's just interesting, some of the comments that Mr Kormos made. He just dropped in and was enjoying himself. He's accidentally here. I officially got substituted on to the committee. I'm interested in some of his comments, though. He was referring to only one day next week. I've already heard the amendment offering two days. I think we should debate

which that other day should be rather than quibbling over it being only one day.

I also object to him making reference to the parliamentary assistant, Jack Carroll, not being relevant. I think he's an excellent member. I think he was entering into borderline personal attacks on a fine, upstanding member of the Legislature. I just don't see that Jack Carroll is not relevant to this discussion. Also, that ministry should be represented in any kind of discussions that would be carried here, whether it's to defend or support or carry messages back to the minister.

He comments about it not having been partisanship before. I think his remarks have made it very partisan, what he's discussing and what he's brought up. I object to his comments about encouraging partisanship at this particular committee. If you want to talk about agreements and partisanship, how about on Monday night? When the agreement was a very short evening, that the opposition wouldn't be putting up speakers, they kept putting up speakers until midnight, for some seven and a half hours. That was very much out of line.

The Chair: This is not to be debated this morning.

Mr Galt: Just a comparison. Just to bring it back in with this committee, I certainly support the amendment put forward by Mr Gilchrist.

Mr Kormos: There doesn't seem to be really a problem here. This committee can commence today. Any questions of Mr Carroll can be deferred until the 17th when he can be here. As a matter of fact, if there's a response from a particular member of the bureaucracy, members might say, "By the way, I will be presenting Mr Carroll with a question with respect to that." They may want to do that so as to identify those areas where they'll be calling upon the PA. I don't think there's a problem. We can begin and then when Mr Carroll is here on Thursday of next week, those questions to be put to Mr Carroll could be put to Mr Carroll. Let's get on with the business here.

The Chair: Are you planning on introducing a motion, Mr Kormos?

Mr Kormos: We've got a motion on the floor by way of an amendment.

The Chair: I realize this, but are you planning on introducing one? After we deal with Mr Gilchrist's motion, are you planning on introducing your own motion?

Mr Kormos: I don't think there will be a need to if the government — Mr Carroll's going to be here next Thursday. I appreciate the concerns the government members have, but after all, Mr Carroll probably can be here next week.

The Chair: Good.

1020

Ms Martel: Everyone on this committee wants to get the best information and the best answers from the right person. Let's be clear, we're going to get the best answers and the best information from the ministry staff who were involved in dealing with this project. The parliamentary assistant was not responsible either for the signing or the negotiation of the terms and conditions of the contract

with Andersen. He would have absolutely no knowledge of what went on here. The people who are going to give us the answers are the ministry staff who have already agreed to appear here today.

I have been on this committee a long time, six years between two different governments. I can tell all of the members of this committee that never, ever have we requested that a parliamentary assistant be part of the proceedings when we are dealing with the auditor's report — never. There has never been a committee meeting where we have invited ministry staff to come in to respond to concerns about particular details of the auditor's report and the parliamentary assistant was party to that. We have never had a parliamentary assistant sit at the table with the ministry staff and answer questions. That is not how this committee works.

It is ridiculous for the government members to somehow propose today that we need Mr Carroll here because he's going to be answering questions. That's just not true; that's completely false. He won't be answering any questions because he's not going to be sitting here with the bureaucratic staff to do that. He was not requested to be here by any member of the committee. Excuse me, this is not to make a personal attack on Mr Carroll but he is completely irrelevant in terms of the proceedings we are about to have here today and next week. He will not be asked any questions; he will not be expected to answer any questions. If he wants to make comments as a member from the government side and be subbed in and ask questions in the rotation like all other members, he can do that next week.

For the government to come here today and try and get this committee postponed is very transparent. What you're trying to do is shut it down. I resent that because we do operate as a non-partisan committee. What you are trying to do today, to say that we cannot proceed without the parliamentary assistant, who wasn't asked to be here and who doesn't need to be here and who's not going to answer a single question anyway, is completely ridiculous. All you want to do is shut this down today. I resent that because we have never operated in a partisan fashion like you are trying to do here this morning.

I am urging you not to proceed in this way. If you want Mr Carroll here next week for some reason, go ahead, but there's no reason for us not to proceed today — none at all.

Mr Richard Patten (Ottawa Centre): I'd have to support Ms Martel on this. We have the time; we have the staff here. There may be some reservations as to specific information that Mr Carroll may want to either impart or deal with, which is fair enough. I think he certainly can have notice of questions that may be directed to him. I don't see why we can't begin. We had scheduled two days. This would cut us back to perhaps less than one meeting. Everyone's ready to go. I fail to see why we shouldn't at least proceed. If there's anything that pertains to Mr Carroll, he'll have his opportunity next week.

The Chair: Members of the government, no comments? Good. Then we'll deal with Mr Gilchrist's

amendment. I don't need to read the amendment. I will proceed with the vote.

Ms Martel: If the government's going to proceed, I want a recorded vote. This is nonsense. They're trying to shut this down today.

Ayes

Beaubien, Galt, Gilchrist, Grimmett, Young.

Nays

Lalonde, Martel, Patten.

The Chair: The amendment carries.

Mr Gilchrist: Mr Chair, I have a second amendment as well. The second amendment is regarding section 2. I move that we delete that section for the very simple reason that the House leaders have indicated they'll be discussing committee meetings for the winter recess. The decisions regarding committee meetings during the recess will be made by the House leaders.

We certainly have no problem with the sections that have been chosen or the sequence in which they're indicated, but we don't believe it's a decision that's up to this committee to select specific dates. That that's a decision that has to be left up to the House leaders, so we're moving that section 2 be deleted.

The Chair: Comments, debate on section 2?

Mr Kormos: This is incredibly dangerous turf that the government members are taking this committee on to. Quite frankly, this takes me back before the last hiatus when the government utilized its time allocation motions to displace the as-of-right inquiry into the death of Dudley George from the justice committee, among others, knowing full well that putting inappropriate bills before that committee for unduly lengthy periods of time would have the effect of forbidding or preventing my application for that hearing to take place.

This is clearly pre-election posturing on the part of the Tories. They're doing major damage control. They know that they have a whole lot of exposure on the issue of the Ministry of Community and Social Services and in particular, obviously, the sweetheart deal with Andersen Consulting and the expenditure of literally millions and millions of dollars of taxpayers' money with no net result — a piece-off, payoff, grease for their corporate friends. Clearly, they've taken enough heat on the McLean scandal. Well, what's scandalous is not Mr McLean but this government's payout of 600 grand, over half a million, to hush up the fallout and to hush up Ms Thompson with respect to the allegations of sexual harassment.

They're avoiding questioning that would reveal not only their incompetence but their total disrespect for any trusteeship of taxpayers' money when it came to Andersen Consulting and the Ministry of Community and Social Services. That's the motive here. The committee is being tainted by partisanship once again. That is unprecedented. All I say to them is that they are out on dangerous turf.

How much more damage do they want to do to the process here before they're finished?

Ms Martel: It is clear by the mere fact that the government today has substituted other people for most of its regular members that the whole purpose of today's exercise is to deep-six the ability of this committee to deal with various sections of the auditor's report, particularly those that are incredibly damning to this government, and particularly the sweetheart of all sweetheart deals that it made with Andersen Consulting. I really resent that the government has stooped to these kinds of tactics today and I can only assume it's because of all the heat they are now taking with respect to Al McLean and the hush-hush money that the government's prepared to put on the table as well to cover that up.

If you check with the motion that this committee put before the House leaders last year when we wanted to sit during the break, I am quite certain that motion included specific dates the subcommittee had agreed the committee could meet. I'm quite certain there were very specific dates. It is quite common that committees choose those dates, put them into their motions and send them on to the government House leaders. What the subcommittee agreed to unanimously last week with respect to setting out the dates that we want to meet and conveying that to the government House leaders is completely in order, and everyone in this room knows it.

1030

All we are seeing here today — first, with the motion where the government members used their majority to shut down this committee from meeting today because we are supposed to hear details about that sweetheart of sweetheart deals with Andersen Consulting, and now this attempt to delete all of section 2, which sets out the week in the break that we were supposed to deal with other issues that the government looks like fools on, particularly with respect to MNR, the fish and wildlife program, the Ontario Provincial Police and the Ministry of the Solicitor General, and with other items of natural resources where the government looks like fools — all that is happening here today is that you folks are trying to shut what has traditionally been a non-partisan committee right down so you don't suffer any further embarrassment. It is as transparent as that.

It is completely inappropriate for the government members to suggest that we have no right or in the past have not set out specific dates for the committee to meet. That is completely untrue, completely false. That's exactly what this committee did when we met in the break last year. We specifically identified the dates we wanted to sit.

I say to the government members, it's ridiculous what you are doing here today. But it was clear for me, when I saw the gaggle who were walking in today who were replacing the normal members of this committee, that all you were going to do today was to try and shut this down. I think it's just ridiculous that you are doing this. It completely undermines this committee. It undermines the auditor and his role on this committee and it undermines the ability of all members to find out what happened with

respect to the items that the auditor reviewed, particularly the disgusting deal that was made with Andersen. That's all this is today: an attempt to shut this committee down to avoid further embarrassment for this government, particularly in light of all of the embarrassment this week around the Al McLean scandal.

Mr Lalonde: I'm completely opposed to the motion brought forward by Mr Gilchrist. I think this committee decided last week unanimously that we would meet during those dates, February 8, 9, 10 and 11. After reading the whole document, the way the contract has been handled by Andersen Consulting, it is a shame that at this point we are not in the position to question the way this contract was awarded and also the way this government has handled this situation. There are some serious points in the contract that we went through and I think it's urgent that we start to deal with it.

Mr Young: We struggled when we chose these dates, actually, trying to balance our calendars etc. I think one of the reasons we struggled is because we don't know what other committees are going to be sitting during the interval. The people in the best position to decide that are the House leaders. They'll know what bills will be referred to what committees. There are 11 standing committees of the Legislature. Outside of the Ombudsman, which is unlikely to sit, that leaves 10 for them to juggle and balance workload and resources for ministries, for government members, for legislative assembly staff etc. They are in the best position to make those decisions when the committee should sit. They could end up even choosing the same days, I don't know, but we just want to leave it in their hands to make that decision.

Mr Kormos: What's most interesting is that Mr Young, who's present today and a member of this committee, is the representative on the subcommittee. What's equally interesting is that Mr Gilchrist is not a member of the committee. He's substituted here today, as he's perfectly entitled to be.

Mr Gilchrist: Like you.

Mr Kormos: No, I'm not substituted. I'm here as of right. It's Mr Gilchrist who's bringing these motions. Mr Young couldn't be trusted with it perhaps, but Mr Gilchrist is clearly here under marching orders. He's substituted on the committee —

Mr Young: Actually, the reality is that I was stuck on the QEW with traffic.

Ms Martel: He's not even a member of this committee. You guys know that. He's in here because he had instructions to —

Mr Gilchrist: I'm here because I'm substituting for Joe Tascona.

Ms Martel: Oh, come on, please.

Mr Gilchrist: Where do you see Joe?

The Chair: Mr Gilchrist, Ms Martel, please. Mr Kormos.

Mr Kormos: I'm sorry, Chair. If I've struck a nerve, I should either stop drilling or somebody should administer Novocaine.

It is clear that Mr Gilchrist is here with marching orders. Mr Gilchrist's mission today — and it's not a Mission Impossible because they have the numbers and they're all prepared to follow orders — is to shut down the hearings, at least for today —

Ms Martel: There go the ministry staff; there they go.

Mr Kormos: — do these things one step at a time. It appears the ministry staff got their marching orders to head home. Mr Gilchrist's mission is to shut this down at least for today. He'll worry about the 17th when it comes to the 17th. We may not even be here on the 17th. The efforts now to shut down the dates of February 8, 9, 10 and 11, as we get closer and closer to an election period, reveal this. The only inference to be drawn is that this is an incredibly partisan exercise. Mr Gilchrist was sent here to shut her down, to shut them up, to close her, and he's going to be successful in doing that.

Mr Gilchrist is paid to do what he's doing. I have no quarrel with the fact that he's following orders. It doesn't diminish my repugnance at what's happening, but I say to his colleagues to be very careful of blindly supporting this motion or any subsequent ones that may come from Mr Gilchrist, because they are, as I say, tainting and infecting this committee in a way that no government has in the past, notwithstanding that governments have always held the majority of members on this committee.

Mr Patten: I have to register my concern as well because what it does is call into question the whole function and legitimacy of this committee and what it does. Number 2 simply says that the committee is requesting "time to meet during the winter recess" and the suggested dates are there. When someone comes into this meeting — not a member of the committee — to put a stop to this and to offer nothing else in its place, as Ms Martel said, it's perfectly in order for the committee to recommend and to square those dates with other dates where other committees may be meeting. Sometimes we've negotiated some dates and we may have substituted one date for another, fair ball, but I see nothing out of order.

It troubles me, frankly, especially when we have conferences and talk about the importance of this particular committee to respond to the auditor and what the auditor has identified as important areas that need further examination, and of course our function is exactly that. I find it terribly troubling for the government to come in now, to send in a runner to put a halt to exploring areas, interfering in the legitimacy of this particular committee. It raises questions as to its ability to function with any degree of independence and to look at areas of concern.

I think this committee has operated on a fairly non-partisan basis heretofore, so I find extremely troubling this approach to cut off what has been agreed to in the subcommittee. My understanding was that it was agreed to by all members of the subcommittee. It's coming forward now and a government member, Mr Gilchrist, has been sent in to put a stop to all this. I find this very sad and troubling, so of course I wouldn't agree with it.

Mr Marcel Beaubien (Lambton): Ms Martel might have had me convinced in her argument on the first point.

However, with regard to the political twist to this whole issue, I've sat on this committee for about three years and probably 99.9% of the time I don't see the pressure. Somehow Mr Kormos just happened to pop in this morning. This issue was apparently discussed with the House leaders last night.

With regard to Mr Gilchrist reading the amendments, Mr Young was late and Mr Gilchrist took the lead in reading the amendments. I don't see anything wrong with this.

Ms Martel: What did the House leaders say, Marcel?

Mr Beaubien: However, when we talk about making it a political issue, like I said, I think you almost had me convinced on your first point, but I wonder who's trying to make this into a political arena when we're talking about dates here. I don't care when we sit, but I certainly agree that the House leaders should decide when we should be here or not. Why should I come to Toronto when the House is not sitting for a two-hour meeting per day? I'd rather fill my day with two, four or six hours per day.

Ms Martel: We didn't say two hours per day.

Mr Beaubien: Consequently, who's trying to make this into a political arena?

Ms Martel: Ask Terence what we agreed to last week, how we were going to do this.

1040

Mr Gilchrist: Perhaps I can clarify things here. If in fact it is troubling to the members opposite, they've had a chance to pander to their audience now and make their cheap shots. Hopefully, Mr Kormos and Ms Martel have another system. It is specifically a reference to the dates that I'm expressing a concern about. If it is the pleasure of the committee that that section stand without reference to specific dates, I'm prepared to amend my motion so that it simply deletes the clause "on February 8, 9 10 and 11, 1999," because it is not within the purview of this committee to require the House leaders to present a motion for any committee to sit during recess. It is absolutely the practice of committees to sit, but it is solely at the discretion of the House leaders, who then present a motion which is duly passed in the House.

I am quite comfortable, as I said in introducing the amendment in the first place, with the sequence and with the fact of meeting during the intersession. My only concern is with the date. If it makes it more palatable to the members opposite that section 2 will stand, my amendment would then be to simply delete the clause that says "on February 8, 9, 10 and 11, 1999." I'm prepared to do that.

Ms Martel: We're prepared to agree to that because it was the government member himself, who is the whip to this committee, who agreed to the date, so I could never figure out why Mr Gilchrist was coming in there to try and change that now.

There is nothing wrong with us putting in specific dates as to when this committee could meet. We did that last year when we asked the House leaders for specific times. So there was nothing wrong with the motion as is. Given that the government has the majority here today and the

best we're going to do is allow section 2 to at least go forward without a date, then I am prepared to accept that, but I see no reason whatsoever for the amendment in the first place.

Mr Patten: I was going to make the same point, that the committee is simply recommending these dates. It's requesting time to meet during the winter recess on the suggested dates. With or without the dates, the dates have to be confirmed in any case. They will be discussed by the House leaders. As has happened in the past, we've had to juggle a few dates here and there, no problem. This is not saying we will meet; this is saying the committee requests time to meet and identifies the dates. It is not our final decision to make, so I fail to see why we need any amendment at all, Mr Gilchrist, on that particular issue. If there are concerns, they'll be brought up at the House leaders' meeting.

The Chair: Any other comments?

Mr Galt: Put the question.

The Chair: Will you be tabling your amendment to your motion?

Mr Gilchrist: I'll withdraw the original motion and simply move that we delete the reference to the dates.

The Chair: So the original motion has been withdrawn.

Mr Gilchrist: I instead move that section 2 be amended by deleting the clause "on February 8, 9, 10 and 11, 1999."

Mr Lalonde: Mr Chair, can we hear the complete amendment now?

The Chair: You just did.

Mr Lalonde: The whole motion.

Mr Gilchrist: I move that section 2 be amended by deleting the clause "on February 8, 9, 10 and 11, 1999."

The Chair: The ayes? The nays, against? It carries.

Ms Martel: I have a third motion that I'd like to move to deal with this.

The Chair: Very good. Is it an amendment to the sub-committee report?

Ms Martel: Yes, it would be. It would read as follows, Mr Chair: "That the committee consider section 3.01 — Business Transformation Project/Common Purpose Procurement (Ministry of Community and Social Services) on Monday, December 14, 1998, and if necessary on December 17, 1998, that at 10 am we be briefed by the Provincial Auditor on what he saw during his detailed audit of this ministry and the contract with Andersen Consulting, and that at 10:30 we have an open session with the ministry staff" who were here today but who have been sent home.

I assume that the government is going to support this, because Mr Gilchrist, who has been sent in here to make sure this committee doesn't sit today, did, during the course of his remarks, say that the committee was prepared to meet next week. Of course, all of us are very concerned that this committee won't meet next week because the House won't sit next week if things continue the way they are in the House with respect to the Al McLean sexual harassment scandal. That is why we

wanted to make sure we sat today, but the government used its majority to deep-six that. So I am moving that we sit on Monday and on our regularly scheduled meeting day, Thursday, to deal with this particular item from the auditor's report.

The Chair: I think what you're doing, Ms Martel, is that this committee's requesting the House leaders' permission to sit on Monday.

Ms Martel: I'm not sure why we would need it, Mr Chair.

The Chair: House leaders usually accept or —

Clerk of the Committee (Ms Donna Bryce): Procedurally, for the committee to meet outside of its regular meeting day, they need to request meeting time. So your motion would read, "The committee requests the House leaders to authorize the public accounts committee to meet on Monday, December 14."

Ms Martel: Then, Mr Chair, we have to ask the House leaders. I still assume, given what Mr Gilchrist said today, that the government members on this committee are prepared for this committee to meet twice next week, that the government House leader, Mr Sterling, is not going to in some way, shape or form not allow this to happen.

Mr Kormos: Ms Martel's motion is certainly not out of order. If this committee is stating that it will meet on Monday and then Thursday, and it's obviously, if the clerk indicates, only capable of doing so as a result of the House leaders' agreement, it obviously implies that there will be consent on the part of House leaders. I don't believe it has to be stated in the motion, in the amendment.

The Chair: I'm being told that the committee can't meet outside our scheduled meetings and that we need permission.

Mr Kormos: I hear what you're saying, Chair, but implicit in the committee passing this motion is the understanding that the House leaders have to agree. We know what's going to happen. Norm Sterling is going to shut her down, but let's make him do it if he's going to do it.

Mr Gilchrist: In fact, we're pleased to meet a second day. Our preference would have been the second slot on Thursday, but we're quite prepared to make it an earlier day. I would just indicate to the members opposite that Mr Carroll's private member's bill is being debated on Monday in one of the other committees, so if Tuesday is an acceptable alternative then that would be fine with us. We're happy to request our House leader as well to accommodate that change. If Tuesday is acceptable to Ms Martel as an amendment to her amendment, then we would be pleased to support that.

Mr Kormos: This is a busy place and members have all sorts of obligations. If Mr Carroll can't fulfill his responsibilities as parliamentary assistant to the Minister of Community and Social Services while he's being paid to the tune of 12 grand a year in addition to his minimum wage of \$78,006 a year, then perhaps he should reconsider his priorities. I find it very, very interesting that now Monday is somehow inconvenient for Mr Carroll. The minister has two PAs; perhaps another one would be appropriate.

Mr Young: Mr Kormos is well aware that members have a multiplicity of duties in this Legislative Assembly, and if Mr Carroll's private member's bill obligates him to be in another committee, I'm sure Mr Kormos in his heart of hearts understands that Mr Carroll's bill, which deals with alternative fuels and agriculture-based fuel mixtures, is an excellent initiative and is important. I think it's very important.

I did want to comment, although it would seem that we're past that hurdle, that Monday mornings are not good for most members. That's when many members meet with constituents; others are travelling from quite far.

Mr Kormos: Try Sunday night.

Mr Young: Others are meeting with municipal officials or local agencies etc.

1050

Ms Martel: Mr Chair, can I confirm that the committee that will be dealing with Mr Carroll's private member's bill is actually meeting Monday afternoon, not Monday morning?

Mr Young: Mr Carroll has to come from Chatham.

Ms Martel: Excuse me, I've just come from Sudbury, okay? I'm sorry, Terence, give me a break, all right? I come in on Sunday nights to be here on time.

The Chair: Can somebody answer Ms Martel's question?

Ms Martel: I want to know, is it true that —

Interjection.

Ms Martel: So it's just Monday afternoon. So in actual fact there's no reason for this committee not to sit Monday morning, because Mr Carroll could be present here Monday morning; he does not have a commitment until Monday afternoon.

Mr Gilchrist: What's wrong with Tuesday?

Mr Young: What about the other members? People have commitments.

Mr Beaubien: For the record, on Monday I will not be available because we are having groundbreaking ceremonies for a new auto plant in my riding which will employ 300 people. Consequently, if somebody is sitting in my chair, I just want you to know that's the reason why.

Mr Kormos: Send your constituency assistant. Do what other busy MPPs do.

Ms Martel: Send someone else in.

Mr Beaubien: It's between 2 and 4, Mr Kormos, and I'm sorry but that takes priority.

Mr Gilchrist: It is extraordinarily unfortunate that the other side is being as partisan as they are. Just this week alone, we had the hearings on the Greater Toronto Services Board. Last week, all three parties' House leaders had originally agreed that Monday would be the date that we would have the clause-by-clause consideration. That was completely inconvenient for me, as the province's representative on the Rouge Park alliance. Despite my protest, that was the original schedule. It was then determined that because of a conflict for both the Liberal and NDP members, who wanted — not had to, but wanted — to sit in on the justice committee for the consideration of

Bill 79, clause-by-clause, could we change the deliberations on GTSB to Tuesday and Wednesday? We did that.

But Ms Martel would have us believe in this room here today that this is a very one-way street. Earlier this week we completely accommodated the request of the Liberal and NDP parties to change the date, when our ministry and our staff and our members had already set up a date on Monday, to dates that were more convenient for them. It is extraordinarily improper, I submit to you, that Ms Martel is making this such a partisan issue, particularly in this committee. We proposed Tuesday. If Tuesday isn't convenient, the second slot on Thursday would be equally convenient to the government members and certainly would allow Mr Carroll to attend, as well as the other members of this committee, two of whom have already indicated they have other commitments on Monday.

Ms Martel: I want to make it absolutely clear to the committee once again that we are here now trying to find another date to sit next week only because, Mr Gilchrist, you came in today and shut down the regular sitting for today. That's why we are in the position we are right now, trying to find some kind of date next week. So don't talk to me about accommodation and how accommodating you are. We're looking for another date because you were sent in here specifically to shut the sitting down today. We would have sat today and we would have sat next Thursday, except that the hired gun was sent in here to shut it down so the government couldn't further be embarrassed by its disgusting contract with Andersen one more time.

So yes, I think we should sit Monday. We are in the position of trying to find a date because of your actions today, not because of anything the opposition should do. I don't see what the problem is to sit Monday. Mr Carroll, who doesn't need to be here anyway — and everyone knows that, and that was so transparent for you to use as an excuse today for us not to sit — in fact could be here, because the committee that he has to appear before for his private member's bill doesn't sit until Monday afternoon. There's absolutely no reason the parliamentary assistant, who's not going to answer a single question anyway about this entire matter, cannot be here. He can. I think we should stick to Monday, because now we're trying to find a way out of the mess that the government members created this morning because they didn't want the ministry to come here today and have to answer embarrassing questions about this contract.

Mr Kormos: Perhaps we'd better go to the beginning. I noted already that Mr Gilchrist is a substitute, as is proper. He's substituting for a member who presumably can't be here because that member has other obligations. Mr Galt is substituting today for a regular member of the committee who presumably can't be here because that member has other obligations. It's entirely appropriate. Mr Gilchrist came here. It wasn't Mr Young who made the motion amending the subcommittee report, deleting, eliminating, killing, quashing today as a day for consideration, as Ms Martel has pointed out, of the incredible multi-million dollar piece-off of Andersen Consulting by this government. He wanted to shut it down.

His obsession with avoiding Monday and accepting Tuesday causes one to become suspicious about exactly what is the schedule and legislative agenda for next week. What is this government's agenda? I tell you something, I've got a feeling that the heat on the \$600,000 payoff, the hush money over the Al McLean deal, because it's starting to spook government backbenchers — they're getting big heat back in their ridings and some of them are starting to crumble under that heat. Clearly today, Thursday, is going to be yet another question period where the government is going to face intensive probing about exactly what was going on with that deal.

Who are they silencing when they pay an extraordinary amount by way of settlement and when they pay not only the successful plaintiff's legal fees — because she was successful, because it was settled, wasn't it, in her favour — extraordinary in itself, but they also pay the unsuccessful defendant's legal fees, Mr McLean's, extraordinary as well?

I've got a feeling this Parliament may not sit beyond Monday. I've got a feeling that if the heat is maintained on the McLean hush money deal Monday will be a wrap-up day, and that's Mr Gilchrist's obsession with deferring this or having it commence on Tuesday. They clearly will go to any lengths to shut it down today.

Mr Carroll is not relevant to the questions that were to be put to bureaucrats from the Ministry of Community and Social Services. He wasn't relevant to the briefing by the Provincial Auditor.

Ms Martel: He wasn't asked to be here.

Mr Kormos: He's never been asked to be here. He isn't a member of the committee. The subcommittee representative, Mr Young, never suggested during the subcommittee considerations, I am told, that Mr Carroll would be critical to the timing or the scheduling of these meetings. It was never a consideration. I'm not blaming Mr Carroll for not being here today. He has urgent matters that compel him to be elsewhere. I understand that and I'm not criticizing him for not being here. But that's OK because he doesn't have to be here in any event. We could have started today, and if there were any questions of Mr Carroll or a need for Mr Carroll to elaborate on anything that was said by the ministry staff who have all been sent home, or anything that was said by the Provincial Auditor or anything that was said by way of questions put by opposition members or even government members, they could have been put to Mr Carroll on the 17th, when we're told he could have been here.

I think that this government is considering shutting down this Parliament on Monday. They clearly can't do it today, but I think they're assessing the situation. They're waiting to see what happens vis-à-vis press coverage and public mood regarding the McLean hush money scandal. They're prepared to come in here on Monday and wrap things up to avoid being tainted and the further exposure of being confronted with the Andersen Consulting deal which would have happened this morning — very, very volatile stuff. Where the government wants to hold itself out as being the save-taxpayers'-dollars government, in

fact it has been, when it comes to their corporate buddies, just blowing money like mad, and when it comes to their backbench good old boy buddies, even more so inclined to spend money simply to keep people quiet.

1100

Do you blame me for being suspicious of Mr Gilchrist at this point, after what has transpired this morning? Is anybody who is here not sensing an odour of less than straightforward dealings here?

Mr Young: You're mixing your metaphors.

Mr Kormos: That's OK. It stinks, Mr Gilchrist, it reeks. You unfortunately are the person, as the hired gun this morning sent here to shut this down, who is bringing that stench in here. It's sad that it's happened at public accounts. As I say, in 10 years here public accounts is the one committee that's had a history of being non-partisan. For it to be abused and distorted in this way is reprehensible, and it will have its price.

If they think they're going to hide by shutting the Legislature down on Monday, let me tell you, where I come from and I'm sure where Ms Martel comes from, and quite frankly where Mr Lalonde and Mr Patten come from, and anywhere in this province, the deal with Andersen Consulting has left a bad taste in people's mouths and the deal with Al McLean has left an even worse taste in people's mouths. There's no escaping for these guys. I suppose they can run, but they can't hide. I wanted to mix that metaphor too, but I didn't dare. You know what I had in mind.

Mr Galt: It was interesting to hear the ramblings of Mr Kormos and some of the comments of Ms Martel earlier. Mr Kormos talking about shutting the place down, I just can't imagine anything more ridiculous than his song and dance here. The probability is that we may end up having to go longer because of the obstruction the opposition is carrying out. One good example of why we're here this morning is because of the opposition leaders insisting that their members get an opportunity to come here and grandstand, and that's exactly what's been going on for the last hour, the opportunity, particularly for the NDP, to grandstand and carry on.

Although Ms Martel was not embarrassed, I was embarrassed as a member of the Legislature at some of her comments earlier. Having been a House leader and having been a member of this committee, she says, for six and a half years, she doesn't know how to put a motion forward as to how you change days that was a recommendation rather than a demand for a certain day. I was quite embarrassed on her behalf. I would think that with her experience in this Legislative Assembly she would at least know how to put a motion on the table for a committee such as this. I just feel badly for her. It's most unfortunate that she would embarrass herself here, although it's not obvious on her face or in her comments, but certainly I think the rest of us around this table felt sorry for her. It's most unfortunate.

There's no question, Chair, why we're here. It's an opportunity for the opposition to grandstand, and they've been doing just a fine job of it, by the way.

Mr Gilchrist: Much as it has always been my impression that the more we let Mr Kormos talk the more support for our government goes up, I think perhaps it would be appropriate to bring an end to this ramble from the non-committee member and the official sub.

Considering that it is the House leaders who will be making the decision when this committee sits, I'm quite prepared to vote on Monday. We will support Monday, and if Ms Martel is embarrassed when her House leader or the Liberal House leader or our House leader finds that they cannot get their members subbed in or represented on Monday, then we may very well see a different motion. But I am quite prepared, to bring this interminable ramble on the part of the verbose members on the other side to an end, to support Ms Martel's motion. I think I speak for all the government members in that regard.

Mr Young: I want to sum up and reiterate that as a government member on the subcommittee, in the spirit of non-partisanship, I sat back while the NDP member and the Liberal member chose the sections of the auditor's report they wanted the committee to look at. I also sat back while they chose the exact order in which the committee would look at those, would scrutinize those. In the spirit of non-partisanship, Mr Gilchrist has amended his motion to reiterate and underline those choices and that order. All we're trying to determine right now is to allow, empower or agree that the House leaders, who are best equipped and have most of the information on all of the other standing committees, decide the exact dates of when you review this.

Mr Kormos: I can tell you right now, Chair, that the NDP House leader is not going to block this committee sitting on Monday morning, and I suspect that my colleagues Mr Patten and Mr Lalonde will say the same about their House leader, but Mr Gilchrist has clearly telegraphed to us what is going to happen, and that is that if it is unsuitable for the government, the government House leader will do everything he can to block this committee sitting, notwithstanding the committee's expressed intention.

Number two, if the government can't manage to get members here on a Monday morning when the minimum wage in this Legislature for elected members is \$78,006 a year, when I see at least two, possibly more, parliamentary assistants here, which increases the salary by another 10, 11, 12 grand a year, and in view of the numbers that the government has and in view of the capacity that any caucus has to substitute members before this committee, if that's the excuse it's going to use, that its members are travelling on Monday morning, then some of these people had better reflect on the significant income they make and

whether they're prepared to fulfill their responsibilities as MPPs. I find that a really silly argument to propose, but I also find it very interesting that we would have that telegraphed to us that the argument that is going to be used by the Tory House leader is, "Oh, we can't get out members out Monday morning," therefore they'll block this hearing.

If they block the proceedings of this committee on Monday morning, everybody will know why they're doing it: because they don't want to be embarrassed further by their sweetheart deal with Andersen Consulting, costing the taxpayer millions and millions of dollars on the heels of what we know now about their payoff, the hush money over the McLean-Thompson deal.

The Chair: Any other comments or questions? I'll put the question.

Mr Young: Could you read the motion?

The Chair: I need the actual wording of your motion.

Ms Martel: I move that the committee request time from the government House leaders to meet on Monday, December 14, 1998, at 10 am to consider section 3.01 — Business Transformation/Common Purpose Procurement (Ministry of Community and Social Services).

The Chair: Very good. Any other comments? So I'll be asking for the vote, the ayes and nays.

Ms Martel: A recorded vote, please.

Ayes

Beaubien, Galt, Gilchrist, Grimmett, Lalonde, Martel, Patten, Young.

The Chair: Now the report, as amended, the ayes and nays.

Ms Martel: A recorded vote.

Ayes

Beaubien, Galt, Gilchrist, Grimmett, Young.

Nays

Lalonde, Martel, Patten.

The Chair: No other business?

Ms Martel: Obviously not, Mr Chair. The government shut that down, didn't they?

The Chair: Thank you for your co-operation this morning. This meeting is adjourned.

The committee adjourned at 1109.

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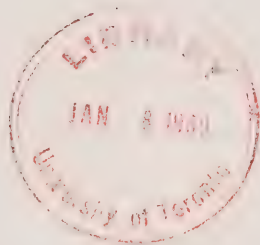
Lundi 14 décembre 1998

**Standing committee on
public accounts**

**Comité permanent des
comptes publics**

Annual Report,
Provincial Auditor, 1998

Rapport annuel 1998
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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON
PUBLIC ACCOUNTS

Monday 14 December 1998

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

COMITÉ PERMANENT DES
COMPTES PUBLICS

Lundi 14 décembre 1998

The committee met at 1055 in room 228, following a closed session.

1998 ANNUAL REPORT,
PROVINCIAL AUDITORMINISTRY OF COMMUNITY
AND SOCIAL SERVICES

Consideration of section 3.01, business transformation project/common purpose procurement.

The Chair (Mr Bernard Grandmaître): Good morning. I must apologize for making you wait, but we had so many very interesting questions and I'm sure you'll be able to help these people with your answers. Welcome to the public accounts committee.

I'd like to welcome the deputy minister, Suzanne Herbert. Madam Deputy Minister, I'll let you introduce your staff.

Ms Suzanne Herbert: Thank you, good morning. I'll quickly introduce my staff to you. This is Debbie Moretta, who is my executive assistant. I have Ann Szyptur, who is the acting director of the business transformation project, and Bonnie Ewart, who is the assistant deputy minister for social assistance and employment.

The Chair: Madam Deputy Minister, before you start I would ask you to, not limit your presentation, but members would like to ask questions. So if you can take 15 or 20 minutes, and then we can block off the number of questions.

Ms Herbert: I understand your desire to get to questions fairly quickly, so I will try and move through this fast, but there are some issues I'd like to share with the committee up front. I'm going to start.

As you know, one of the core businesses of the Ministry of Community and Social Services is to provide assistance to Ontario residents who require income support.

Social assistance delivery was split between municipal and provincial field offices. It was paper-focused, administratively cumbersome and labour-intensive, with approximately 7,000 provincial and municipal social assistance staff working in over 200 delivery sites to serve over one million clients.

The technology that supported eligibility verification and cheque production for the social assistance system was operated by two mainframe computers, both of which were outdated and pushed to capacity. In addition, a

number of municipal delivery agents had developed and were operating stand-alone systems of their own. The lack of common technology led to error, underpayment, overpayment and fraud.

The reform agenda has included new legislation, new programs, an integrated delivery system and a change in the philosophy of social assistance from an entitlement system to one focusing on individual responsibility to work. Integral to this reform is the need to modernize technology and business practices to support the change. It literally requires a re-engineering of all the systems that support social assistance, including administration and technology.

The system is supported by two large, centralized computer systems, the comprehensive income maintenance system, which we fondly call CIMS, and the municipal assistance information network, called MAIN. Both computer systems were developed in the 1970s and are limited in their flexibility and the functions they can perform. In addition, the systems have reached their practical capacity and are unable to accommodate many of the changes necessary to improve program delivery, customer service or administrative effectiveness.

The ministry had clear goals. It had to replace an outdated system with one that had several key features, including a common province-wide technology and database to reduce fraud and administrative errors; automated electronic information-sharing to confirm eligibility; a more efficient intake process; and reduced paperwork to allow more time for caseworkers to help their clients find employment.

The ministry began with the automating social assistance project, or ASAP, in 1994. This project focused on addressing the immediate technology needs and later implementing two new applications — caseworker technology and Ontario Works technology — to automate a highly manual, paper-based delivery system.

Caseworker technology was intended as an interim application to automate data collection and support file maintenance in both ministry and municipal social assistance offices. This provides some relief to delivery staff dealing with cumbersome paper processes and outdated mainframe technology. Ontario Works technology was intended as a transitional solution to reporting on the employment aspects of the Ontario Works program until a more permanent solution could be developed.

The two applications have taken the ministry a significant step forward. As of November 1998, caseworker technology has been implemented in approximately 71 provincial and 144 municipal sites across the province and more than 7,000 staff have been trained to use the new hardware and software. Ontario Works technology has been implemented in 17 provincial and 165 municipal sites, with more than 4,600 staff trained.

While ASAP is an important first step, it alone does not provide the long-term solution. Even with new applications, the system is still too cumbersome to react quickly to the policy and program changes necessary to support reform. There is still too much duplication of data entry, no common database, and a lack of integration among the various computer systems being used.

The ministry needed a common province-wide delivery system and a redesign of business practices to go along with the new technology. That's why the business transformation project, or BTP, was created.

The mandate of BTP is a massive undertaking that will support the development of an efficient, employment-focused welfare delivery system. New business processes and technology solutions will reduce error and improve efficiency. They will ensure the right people get the right benefits at the right time, and they will improve how staff work, giving them more time to help clients.

Through the design and development of new business processes and technology, BTP will also support the delivery of the province's new Ontario disability support program for people with disabilities. However, while it was clear at a higher level what the business transformation project needed to achieve, it was also clear that the ministry did not have the resources or expertise to do the work internally. The ministry needed a private sector partner with expertise and experience in providing business, technical and transitional advice to help reform the social assistance delivery system, and it recognized that kind of expertise is expensive in today's market.

Any approach would have resulted in expense to taxpayers, but because of the magnitude of the project, the ministry wanted a partner who would share the risk and investment — something that isn't possible with the traditional fixed-price contract.

CPP is an innovative approach to managing large projects. It is a competitive procurement process for selecting private sector partners to work with the government to identify, design, develop and implement new ways of delivering services, particularly information technology-based service delivery. CPP differs from traditional fixed-price arrangements in the following key ways: CPP is a risk-based arrangement in which the vendor invests its own human and financial resources and can only recover its costs from savings achieved through the work of the partnership; and the exact solutions or specifications are not known at the time that the ministry issues the request for proposal. The vendor selection process focuses on the selection of a vendor who can work jointly with the ministry to develop the right solution. In CPP, the government negotiates pricing, time frames and deliverables with the

successful vendor, and the partners share the risks and the costs.

To quote from the 1995 CPP guidelines, the process is used:

"When a ministry has a multi-stage design-build-operate project and does not have the right mix of time, skills and money to identify, design and develop its own solution, then the ministry needs private sector expertise and resources.

"Since the ministry does not have the resources to write detailed specifications before selecting a partner, vendors cannot propose prices at this early stage of the project. And since the ministry needs private sector investment and will likely be unable to pay a return on that investment until the project succeeds in providing anticipated benefits, the potential vendor-partners must be capable of sharing the project risks and investments with deferred benefits."

The ministry was one of the first in Ontario to use the CPP approach to working with the private sector. In October 1994, the government directed the ministry to work with Management Board to pilot common purpose procurement. Because the business transformation project was a pilot for CPP, ministry staff worked closely with Management Board staff in the development of the request for proposals and subsequent selection and negotiations processes.

The choice of Andersen Consulting as the ministry's partner in BTP was the result of an open, competitive selection process handled by ministry staff that followed the CPP guidelines as they were stipulated at the time. As part of the CPP process, the ministry did an analysis of its needs and scope of the project to prepare the RFP. Written responses were evaluated and shortlisted by a ministry selection team. Reference checks were conducted. Shortlisted vendors made oral presentations. Andersen Consulting was the highest-ranked vendor. In April 1996, they were chosen in essence to be the party we would negotiate with.

On January 27, 1997, the ministry and Andersen Consulting signed a four-year contract to undertake a major business redesign and technology project in support of social assistance reform.

During negotiations, the ministry and Andersen Consulting completed a high-level business case to determine if the project was viable. It focused on the types of administrative and program changes required, such as intake processes and the automation of forms and looked at other jurisdictions to determine how their experience could be applied. Under the contract, Andersen Consulting agreed to work with the ministry to replace the two outdated computer systems, CIMS and MAIN; design new business process and technology to support implementation of Ontario Works and the Ontario disability support program; plan and implement the restructuring of the delivery system; and provide staff training and other support as provincial and municipal organizations change to accommodate the new business processes and technology.

The contract signed with Andersen Consulting means the improvements it helps implement have to be effective

and create savings for the ministry. Andersen Consulting pays its own costs and is paid only from the savings the project generates. The ministry and Andersen Consulting jointly manage the project. However, it is important to be clear that Andersen Consulting's role is limited to helping the ministry improve its business processes, implement new technology and help employees adapt to the changes. The government is solely responsible for establishing and interpreting social assistance legislation, policies and regulations. Andersen Consulting and BTP do not have the authority to change the eligibility requirements for social assistance, nor will the project achieve benefits based on these types of savings.

I'd like to review a few of the particulars about how Andersen Consulting is paid within this arrangement. The contract stipulates that Andersen Consulting may be paid back its costs to a maximum of \$180 million. However, there is no guarantee that Andersen Consulting will receive the full amount unless the project delivers the benefits. Savings will have to be in excess of \$180 million for the cap to be reached.

This is a one-time payment for the ministry. The savings that result from streamlining and improving the efficiency of the delivery system will continue for the government year after year. The \$180-million cap covers the key components of the project that are essential to reforming the social assistance delivery system and replacing the outdated mainframe technology. The cap can only be renegotiated under limited circumstances, such as substantially changing the scope or the complexity of the work.

The agreement states that the company will not be paid for any services until savings are achieved. All of the work on the project, however, does not generate benefits. To the end of October 1998, Andersen Consulting spent more than \$46 million on this project. As of the same date, a total savings of \$29.7 million were realized in the cost pool. Andersen Consulting has received \$24.2 million.

Each partner receives benefits based on their costs. The ministry expected that Andersen Consulting would receive a larger portion of the savings during the life of the project because the company will incur higher costs and higher risks. The government will continue to benefit from the estimated \$200-million-plus savings for years after the project is completed.

I'd like to acknowledge the concerns raised about the BTP process by the Provincial Auditor. The auditor raised legitimate concerns. He has made some constructive recommendations to the ministry. His advice has also influenced the development of the new CPP guidelines which were recently completed by Management Board.

Some of the auditor's recommendations to the ministry have already been implemented and action is being taken to address others.

The ministry immediately obtained the receipts for all project-related expense claims. Procedures for monthly review and retention of expense claims are now in place. Procedures are now in place to ensure that important documents such as the paperwork for reference checks

will be properly retained in the future. All ministry costs are now regularly examined and added to the cost pool where appropriate. Previous costs which were not in the pool but were project-related have been added.

The auditor raised questions about the monitoring of expenditure levels. We have reviewed cost drivers in several areas as a result. The overpayment to Andersen Consulting identified in the auditor's report has been recovered. There is no longer an Andersen Consulting representative on the project's quality council. This is an advisory body which meets about twice a year. The auditor felt it was important that there is no perceived conflict of interest.

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I want to point out, however, that the auditor did not say there is no value for money in this project. What he said was that the ministry could not demonstrate an auditable business case which assured him that there was value for money. Indeed, 1995 Management Board guidelines spoke to this issue. Under "Value for Money" the guidelines say, in part, "The key issue is how to demonstrate that the ministry obtained value for money since the traditional mechanism of competitive price bids does not exist in CPP.... Whether the ministry gets good, better or best value for money depends on the strength of the common purpose in the project and how well the arrangement for sharing risk and reward is structured for a win-win result."

The ministry agrees that it is important to be able to provide and document value for money spent. Given the auditor's belief that this had not been demonstrated adequately, the ministry has initiated a third-party review of the business transformation project and the ministry's management and monitoring of the contract with Andersen Consulting.

The purpose of this review is to provide advice on how to ensure and measure the value of this service to the taxpayer; review the auditor's findings and provide advice on additional action needed; and assess the ministry's strategies to manage the CPP arrangement with Andersen Consulting and provide advice on additional actions needed to address any gaps. The ministry is expecting a summary report of the review early next year.

The business transformation project has already made a number of improvements to help streamline the delivery of social assistance reform. BTP helped develop and implement an improved way for clients to report income. Improving the monthly income reporting process has helped reduce overpayments and underpayments and decrease administrative costs. In addition, a blueprint that provides details of a new service delivery model has been developed by BTP with input from ministry and municipal field staff. A new business practice called the consolidated verification process, or CVP, has been implemented across the province. CVP is a streamlined business process for review of program eligibility and entitlement that has become the verification standard for all social assistance programs.

** no, based on (2001-2002) and the same thing - less money*

BTP is helping the ministry develop new business processes and technology to support the implementation of the Ontario disability support program. This includes the development of new forms, manuals and business procedures. It has produced, as of October 1998, savings of about \$30 million. Because it impacts directly on the delivery of social assistance to the over one million people who rely upon it, BTP is a vitally important part of the ministry's larger efforts to transform social assistance to be more cost-effective, responsive to clients and accountable to the taxpayers of Ontario.

I'd be happy to answer questions now.

The Chair: We will divide the remaining time equally. Let's say 45 minutes, so 15 minutes per caucus, starting with the official opposition and then the NDP and the government members.

Mr Richard Patten (Ottawa Centre): Welcome this morning. I have two quick questions, because we don't have much time this morning. My first one is, in your selection process, the auditor was saying that a fair amount of this was subjective, the three criteria that were laid out. You just mentioned that you did some reference checks on some of the senior managers who were part of Andersen Consulting. Then we find that once the contract is achieved, with ministry approval, six of 11 of the senior members on the team are no longer on the project. Could you explain how that would happen?

Ms Herbert: I think in a long, multi-year project, which this one is, what you'll find is that people do move in and out of the work. This is as true of the ministry as it is of Andersen. Sometimes, for whatever purposes, the skill match isn't right; sometimes people leave their jobs and move on into new territories. Over a multi-year contract, it's not unusual to have senior staff change, alter, move out of project delivery.

Mr Patten: What was the time frame within which they left, though?

Ms Ann Szyptur: There were two groups of people. There were people who had not been part of the project initially and there was also a group of people who left during the first year of the project.

Mr Patten: Related to chargeable, classified by Andersen Consulting, it shows here that payouts were made. First, in "December 1997, Andersen Consulting had been allocated...90% of the amount of the benefit pool but had contributed only 63% of the total hours spent on the project."

Second, "Andersen Consulting may at any time increase its standard published billing rates and charge the higher rates to the project without the necessary approval of the ministry." On the second question, has that been changed? If it hasn't been changed, why would the ministry enter an arrangement like that, which is wide open and open-ended for Andersen Consulting to increase its rates based on whatever it wants?

Ms Herbert: There is a process for reviewing the rates. The process is that Andersen Consulting comes forward and shows its published rates. It has to demonstrate that the rates it wants to charge the government are

the same as the published rates it would charge anyone else, should they be using the rate level.

Having said that, the auditor raised some legitimate concerns for us and for others who are using the CPP process. It's one of the things we're asking the third-party reviewer to look at. —*S.S. ND.*

Mrs Sandra Pupatello (Windsor-Sandwich): Just to begin with a question to the Deputy Minister: The Provincial Auditor said this morning that they had a "most difficult time" auditing this area. In fact they said they spent three times the amount they should have on this audit. They said "most difficult time with no access to the floor, no access to document." Is there a reason that, unlike typical audits done by the Provincial Auditor, you made this one so particularly difficult for the Provincial Auditor?

Ms Herbert: I would say two things in response. One is that if there was a problem with access to documents throughout the time the audit was being done, from September till late in the winter, that issue did not come to my attention. I would say this is a difficult and complicated area. I assume it was the first large audit of the CPP for the auditor. It certainly was the first time through an audit of the CPP for us, which I assume would make it more complicated.

Mrs Pupatello: We asked that question of the Provincial Auditor as well, in fact a Conservative member did, and the Provincial Auditor said he felt quite comfortable doing this kind of audit. They followed the New Brunswick model. They looked at what had happened there. I presume that you too looked at that model when you were looking into the CPP, and that you followed the experience in New Brunswick. Given all of the information out there today in terms of overpayments and overcharges, would you recommend cancelling the project as they did in New Brunswick?

Ms Herbert: Just a couple of clarifications, if I might. One is that they did not cancel the project in New Brunswick, not the social assistance project.

Mrs Pupatello: They cancelled —

Ms Herbert: The justice project.

Mrs Pupatello: — the justice project as well.

Ms Herbert: I understand from my conversations with the Deputy Minister that the social assistance project in New Brunswick has been quite successful.

Mrs Pupatello: Would you not recommend cancelling any part of the Andersen contract?

Ms Herbert: At this point, I would not want to pre-judge or speculate about the outcome of the third-party review we have under way right now.

Mrs Pupatello: OK. In the House a couple of weeks ago we asked a question about what parts of the savings were going to be attributed and therefore included in calculations of profit to Andersen, changes to Comsoc regulation etc. One area was a policy change in the Ministry of Education, which led to people who used to be on OSAP and also on the welfare rolls being completely removed from welfare and put completely on a loan program.

We asked the Provincial Auditor this morning and he said it would be better answered by you. The policy change was in the education ministry, not Comsoc, but the benefits are to Comsoc. Were those 17,000 people who are no longer on welfare counted as the benefit to decreasing the welfare rolls and therefore part of the benefit that would be paid to Andersen?

Ms Herbert: First of all, as I said earlier in my comments, the BTP project cannot have in its benefit pool monies that come from policy decisions or eligibility decisions that the government makes.

Mrs Papatello: Policy of any ministry?

Ms Herbert: That's right.

Mrs Papatello: So the 17,000 have not been included?

Ms Herbert: That's right.

Mrs Papatello: It counts for administrative change, though.

Ms Herbert: Yes.

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Mrs Papatello: In the administration, I looked at the actual computer screen used in the local regional offices when people leave welfare. There are certain entries you can make to explain why people leave the welfare rolls. There is no longer a place in your new, changed administration, which I presume is part of Andersen's benefit, that allows you to say that people left welfare because they found a job on their own. There's no place to include that any more. It's been changed. If you can't document anywhere in the file that people left welfare because they found a job on their own, that will automatically be viewed as a benefit to Andersen and therefore profit to Andersen. Is that correct?

Ms Herbert: I'll say one thing and then I'll ask Bonnie to address the screen issue. For some time in our present system we've been unable to track why people leave welfare and how many people leave welfare for a job. So we've had to do independent surveys —

Mrs Papatello: We've been saying that for a long time, too, so I'm pleased to hear you say that as well.

Ms Herbert: We hope to fix that with BTP, but right now what we do is an annual survey. We actually follow up with clients through a survey technique, which allows clients to tell us why they left welfare.

Mrs Papatello: Surely if you're about to embark on an improvement of administration, then having very recently changed the screen, you would have included information for people who leave the program voluntarily. But that is not included in the changed, updated version of the screen.

Ms Bonnie Ewart: That will be built into the new system. We have a problem with our screens at the moment. What would get counted in the BTP project is through the consolidated verification process, which is the rigorous review that was introduced as part of the project. If the person left as a result of that review, that would be attributed as savings to the project. If that review was not performed and the person left voluntarily to get a job, that would not form part of the savings of the project.

Mrs Papatello: That is just happening now, but has not happened in the last —

Ms Herbert: That's right. We've had to —

Mrs Papatello: Andersen has been credited with savings, though, so —

Ms Herbert: We've had to do independent surveys in the past. We've done two —

Mrs Papatello: I should deduce from that answer, then, that Andersen did get credit for ministry staff savings of various kinds to show overall that Andersen does benefit just because you can't prove they don't. Therefore they have —

Ms Herbert: Let me ask Ann to explain it. I apologize for all the jargon we use in our system, but we call it the metrics approach to costing the benefits of the project. Ann, can you just take a couple of minutes and do that?

Ms Szyptur: I can just talk about the metrics principles we have developed to measure our savings. In measuring savings, we want to make sure that savings are accurate and that they're also balanced by simplicity and ease of understanding. The key, in terms of measuring savings for this project, is that it has to be an incremental value over the current rate we're working on. We have to be able to measure business transformation project related savings that are separate from other effects, and measure what happens without the business transformation project changes, in other words, the base line. In order to do that, we're actually using our CIMS mainframe system in terms of coding. So staff need to code terminations that are related to business transformation.

Mrs Papatello: OK. In that, it talks about that benefit pool and cost pool. Did any of you who are presenting today notice that the fee per hour that was being charged by Andersen included their profit as well, so that while they were charging \$575, which was actual charge, they assumed that they may charge \$400 and the actual was higher than \$400. That was for the project director — not that that individual was being paid \$575 per hour, but the profit to Andersen. When you costed out the cost of your ministry staff, did you include a 50% profit margin when you costed it to the pool as well? I assume it's a 50% profit.

Ms Herbert: Fifty per cent that we make in profit — no, we did not. We included a salary rate and a 15% admin cost.

Mrs Papatello: Which is actually additional cost.

Ms Herbert: Admin cost; that's right.

Mrs Papatello: There was no profit in the ministry amount —

Ms Herbert: That's exactly right.

Mrs Papatello: — but likely a significant one in the Andersen amount.

Ms Herbert: Yes, because as you know, what's called a billable rate includes a company's overhead and their profit margin. It's one of the structures in the contract that the auditor has raised concerns about. It's what I would call a construct, and it is part of what we're looking at as part of the third-party review.

Mrs Papatello: Could you tell me what wasn't included as a reimbursable cost to Andersen? The list of reimbursable costs was pretty extensive: basically

computer hardware, computer software, third-party software, travel, meals, accommodation. I was thinking as I read the report, "What was left not to be charged back as a reimbursable cost?" What's an example of what wasn't a reimbursable cost to Andersen on this project?

Ms Herbert: I'll ask Ann to talk about the contract. But we have to remember, because this is not a normal RFP, fixed-priced contract, that Andersen was upfronting its own costs. In a normal contract, the government would be paying those costs monthly regardless of the product that Andersen provided. We just have to remember that in a CPP Andersen is paying their own costs.

Mrs Papatello: Those being put into the pool.

Ms Herbert: Then if there are benefits, and only if there are benefits, can they put their share of the costs into the pool. Having said that, I will ask Ann to answer your question about what wasn't in the contract.

Ms Szyptur: What we tried to do for both the ministry staff and Andersen Consulting staff in terms of the cost pool was include reasonable costs that are consistent with the Ontario government guidelines for things like travel expenses for both ministry staff and Andersen Consulting staff. We have included accommodation costs for the minister, we have included travel costs for Andersen Consulting.

Costs that would not go into the cost pool for Andersen Consulting are costs that are not consistent with Ontario government expense policies.

The Chair: Thank you. I must move on. I'm sorry, Ms Papatello, but time is of the essence.

Mr Peter Kormos (Welland-Thorold): Who signed this agreement on behalf of the government?

Ms Herbert: The guidelines in 1995 required that the deputy sign a contract.

Mr Kormos: Who signed the agreement that was signed on January 27?

Ms Herbert: The deputy of the day.

Mr Kormos: That was approved by the minister?

Ms Herbert: No. The guidelines don't require approval by the minister.

Mr Kormos: The agreement that was signed on January 27, 1997, wasn't approved by the minister?

Ms Herbert: No. The guidelines from Management Board that were in place at the time the contract was signed gave delegated responsibility to the deputy.

Mr Kormos: Was the contract reviewed by Management Board?

Ms Herbert: No, it was not.

Mr Kormos: Was the contract reviewed by cabinet?

Ms Herbert: No, it was not.

Mr Kormos: Was the contract reviewed by anybody other than the deputy minister and her staff?

Ms Herbert: The guidelines are different today. The guidelines that were just released require approval by Management Board before a contract is signed. At the time this contract was signed, there was no requirement for approval at the cabinet level.

Mr Kormos: Was the minister briefed about this agreement?

Ms Herbert: To the best of my understanding, no.

Mr Kormos: The minister was unaware that this agreement was going to be signed on January 27, 1997?

Ms Herbert: The minister would know that the contract had been signed.

Mr Kormos: After the fact.

Ms Herbert: The procurement policies of the government are very clear that the deputy minister has delegated accountability for the negotiation and signing of the contract.

Mr Kormos: I understand that. You're telling me that the minister would not have known that the contract was signed — am I correct in regard to January 27, 1997, being the signing date?

Ms Herbert: The minister would have been told. I want to draw the distinction, Mr Kormos: There's a difference between being told the contract is being signed and being briefed about the contract before it's signed.

Mr Kormos: I understand that. We're going to deal with both issues before we're finished.

The contract was signed January 27, 1997, is that correct?

Ms Herbert: That's correct.

Mr Kormos: Would the minister have known prior to that date that the contract was going to be signed on January 27, 1997?

Ms Herbert: To the best of my knowledge, no.

Mr Kormos: Would the minister have been consulted at all about the pending contract, the one that was signed on January 27, 1997?

Ms Herbert: The minister would know, of course, that we had an RFP out on the street and that we were in negotiations. That was commonly known. BTP is a fundamental underpinning to the reform of social assistance, and as such she would have been aware of the BTP project.

Mr Kormos: So you're saying there was no obligation on the part of a DM at that point in our history to inform the minister.

Ms Herbert: No, there was not.

Mr Kormos: But at the same time, the minister was aware that the RFP was out there and that there was an agreement that in all likelihood would be entered into at some point.

Ms Herbert: Yes.

Mr Kormos: The minister has frequent contact with you as her DM, doesn't she?

Ms Herbert: Yes.

Mr Kormos: These are briefing sessions, among other things.

Ms Herbert: Yes.

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Mr Kormos: It's open to the minister to make inquiries about the status of the RFP?

Ms Herbert: Ministers' offices are well aware that they are not to discuss RFPs before they are signed.

Mr Kormos: Is it open to the minister to make inquiries about the status of the RFP?

Ms Herbert: Yes, it's open to them. Most ministers don't.

Mr Kormos: Was the minister aware of the magnitude of this pending agreement?

Ms Herbert: She understood that this project, as we've said earlier, was a massive undertaking. It was going to actually reform the business processes and produce better information and clearer eligibility requirements. So she was aware of the intent, at a high level, of the project.

Mr Kormos: The largest single undertaking in how many years by the ministry?

Ms Herbert: Undertaking?

Mr Kormos: Activity, effort, project. The largest single activity, undertaking, project, effort by the ministry in how many years?

Ms Herbert: I would say that the entire social assistance reform — legislation, Ontario Works, ODSP, BTP — all the work was an extremely large undertaking that the ministry was going through.

Mr Kormos: You're saying the minister did or didn't familiarize herself via you with the status of the RFP?

Ms Herbert: I have to be clear: I wasn't the deputy of the day.

Mr Kormos: Deputy minister, continuity in the office.

Ms Herbert: Yes.

Mr Kormos: Yes? So did or did not the minister familiarize herself with the status of the RFP via the deputy minister?

Ms Herbert: Not until the contract was signed. The minister does not get involved in the daily management of the ministry.

Mr Kormos: Once it was signed, without being vetted by either Management Board or cabinet — you're telling us that, is that correct?

Ms Herbert: That's right.

Mr Kormos: When was she first briefed about the nature of the agreement subsequent to its signing on January 27, 1997?

Ms Herbert: My assumption would be that at some period in the next month she would have been told that the contract was signed.

Mr Kormos: Would she have been made familiar with the contents of the agreement, the nature of it?

Ms Herbert: My assumption is that, at a very high level, she might have been.

Mr Kormos: What do you mean by "at a very high level"?

Ms Herbert: Without going into any details about the structure of the CPP.

Mr Kormos: You mean she would have been advised of it at a very cursory level?

Ms Herbert: I'm speculating now, as you can appreciate, but I can tell you with certainty that the minister would only have been told about the contract after it had been signed.

Mr Kormos: What would be the level or the intensity of the information given to the minister? Would it have been more than simply saying an agreement was signed?

Ms Herbert: She would have been told the general parameters of the agreement, which at that point would have been the same parameters that were outlined in the 1995 CPP guideline.

Mr Kormos: Would she have been told that it was one of the terms of the agreement, with respect to its expense policy guidelines, that all claims for out-of-pocket expenses were to be presented with supporting receipts? Would she have been told that in the briefing?

Ms Herbert: I assume that the minister was given at a very high level the parameters of the contract. She would have been told that they met the CPP guidelines of the day.

Mr Kormos: Really, it would be redundant to advise the minister that out-of-pocket expenses would require a receipt, wouldn't it? Can you name any activity the government engages in where out-of-pocket expenses don't require receipts?

Ms Herbert: I'll just go back to my earlier comments that the minister would have been briefed at a high level on the parameters of the contract and that they met the CPP guidelines of the day.

Mr Kormos: You signed the contract. You knew that out-of-pocket reimbursement requests were to be accompanied by receipts, didn't you?

Ms Herbert: Again we're speculating. I was not the deputy who signed the contract.

Mr Kormos: The deputy minister knew that, is that correct?

Ms Herbert: I can only assume that the deputy was briefed on the structure of the contract.

Mr Kormos: Who made the decision not to require receipts to the tune of around \$1.4 million?

Ms Herbert: I think that is a fair question. I would tell you that when that issue was brought to our attention by the Provincial Auditor, we immediately moved to make sure that the receipts were in their right place. I had my own audit and investigation branch go back to assure me that that process was being carried out as it was intended to be. In fact, they assured me that we now have in place a system that guarantees that the expenses are reviewed.

Mr Kormos: But that had been going on for almost a year, to the tune of \$1.4 million. Am I correct in that regard?

Ms Herbert: Staff told me that's the right number.

Mr Kormos: Who in the ministry was responsible for supervising the activities so as to ensure that the activities complied with the agreement?

Ms Herbert: I just want to be clear here. The fact that the expenses weren't in the right spot and hadn't been reviewed as they were intended to be didn't mean that the expenses were wrong.

Mr Kormos: But they weren't accompanied by receipts. That's the report of the Provincial Auditor.

Ms Herbert: Yes, that's correct.

Mr Kormos: Who in the ministry was responsible for supervising the day-to-day affairs related to this agreement whose responsibility would be to determine that the agreement was being complied with, in particular with

respect to the submission of receipts for out-of-pocket expenses?

Ms Herbert: Mr Kormos, I'm the deputy head. I'm accountable for the management of this project.

Mr Kormos: Why wasn't that aspect of the contract being supervised?

Ms Herbert: Clearly, staff made a mistake.

Mr Kormos: Was that a mistake? That was an error?

Ms Herbert: It was an error because we were not following the contract obligations. We should have picked that issue up.

Mr Kormos: But what was the mistake? Were they mistaken as to what the contract required? Were they mistaken as to whether or not the contract required receipts to be submitted?

Ms Herbert: No. What my own audit and investigation staff tell me is that we knew what we should have been processing. We were just sloppy in making sure that they were coming in at the right time.

Mr Kormos: They didn't come in at all, according to the auditor, until after the auditor's report, some 10½ months later.

Ms Herbert: We had some in.

Mr Kormos: The auditor makes it quite clear that it wasn't 100% of the receipts absent, but he makes it similarly clear that of the \$1.55 million in out-of-pockets, \$1.4 was incurred by Andersen, and that the majority of the Andersen staff's claims were not accompanied by receipts — not the minority; the majority — over a period of 11 months. What were people mistaken about, whether or not the contract called for receipts, or were they simply negligent in terms of their supervision of the contract?

Ms Herbert: The ministry has accepted responsibility for not managing this correctly and we fixed it as soon as it came to our attention.

Mr Kormos: Why weren't ministry staff aware of it during the course of those 11 months that it was taking place? How often did the supervisory role of the ministry occur such that it could have advised itself as to whether or not receipts were being submitted? That's pretty fundamental, isn't it?

Ms Herbert: Yes, it was.

Mr Kormos: What went wrong?

Ms Herbert: My only assumption and what my audit staff tell me is that we made an error in how we supervised this aspect of the contract.

Mr Kormos: Fair enough. What was Andersen's excuse, though? They were the ones who's staff were submitting expense claims without receipts. What was their excuse?

Ms Herbert: Mr Kormos, I'll go back to repeating what I said, and probably irritating you, which is that the ministry investigated this issue and we've fixed it.

Mr Kormos: I understand that. However, it remains that it was Andersen's staff who were submitting claims without receipts. They knew what the terms of the contract were as well, didn't they?

Ms Herbert: It would be my assumption.

Mr Kormos: So what was their excuse? You've explained why the ministry didn't catch it. I'm asking if you know whether or not Andersen has advanced a reason for its staff making claims without receipts, contrary to the agreement.

Ms Herbert: It was our job to ensure that the receipts were reviewed against the ministry and government guidelines. We did not do that job.

Mr Kormos: Isn't it the job of Andersen's staff to comply with the contract as well?

Ms Herbert: Yes.

Mr Kormos: And they didn't, did they?

Ms Herbert: This part of the contract management was our responsibility.

Mr Kormos: But the fact is that Andersen's staff didn't comply with the contract, did they?

Ms Herbert: Well, it's a moot point. The fact is that we made a mistake here. We should have been managing this. We should have been reviewing the receipts in the office and we were not.

Mr Kormos: Were Andersen's staff conducting themselves in compliance with the contract when they submitted claims without receipts?

Ms Herbert: Obviously it was a procedural agreement in the contract. It was our job, though, to review the receipts, and we didn't do that.

Mr Kormos: You didn't do that and Andersen's staff didn't submit receipts, obviously, did they?

Ms Herbert: Clearly not.

Mr Kormos: Did they offer an explanation as to why they failed to submit receipts for a majority of their claims over the course of 11 months?

Ms Herbert: Because it was our responsibility to manage and monitor the receipts, what we did when this came to our attention was immediately request the receipts, which Andersen then provided us with.

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Mr Kormos: Did they provide an explanation as to why they didn't submit them when the claims were first made?

Ms Herbert: I think the important point here is that we've fixed the process. Only allowable costs were approved and we have a system in place now that moves claims through an adequate, good, solid review process.

Mr Kormos: Andersen's staff violated the terms of the contract over a course of 11 months and that didn't cause you any concern?

Ms Herbert: Clearly, as the accountable deputy, I was concerned about the fact that we had not done our job here, yes.

Mr Kormos: Were you concerned about the fact that your partners, Andersen Consulting, had violated the contract, some portion, to the tune of \$1.4 million?

Ms Herbert: No. I would say that you're drawing a relationship between the money and a process. What they did not do was send the receipts and they weren't allowed to be reviewed and, as a result, they weren't reviewed against the government guidelines. Clearly, we made a mistake there. That mistake has been fixed.

Mr Kormos: Did Andersen make a mistake or were they conscious that they were violating the contract when they submitted claims without accompanying receipts?

Ms Herbert: As I say, when we requested the receipts, the receipts came forward. That was our job to request the receipts.

Mr Kormos: I understand that. Did you similarly request an explanation as to why Andersen's staff hadn't submitted the receipts with their claims?

Ms Herbert: I examined the process that the ministry had in place since this particular aspect was our responsibility.

Mr Kormos: Is it not the responsibility of Andersen's staff to comply with the contract as well?

Ms Herbert: Yes.

Mr Kormos: Did they comply with the contract in this regard?

Ms Herbert: Again, because we did not request the receipts, which we should have done, it created an issue that the auditor brought to our attention. We followed up and it's been fixed.

Mr Kormos: Did you provide the auditor with the written reports of consultants who were called upon to assess or audit the contract proposal from Andersen prior to it being signed?

Ms Herbert: Sorry, Mr Kormos, could you repeat that?

Mr Kormos: Did you provide our auditor, the Provincial Auditor, with consultants' reports that had been utilized prior to entering into the agreement with Andersen to audit or determine the appropriateness or feasibility of the agreement?

Ms Herbert: Are you referring to Coopers?

Mr Kormos: I'm referring to any and all that you may have obtained.

Ms Herbert: Coopers and Lybrand were working with us in terms of developing and negotiating the contract.

Mr Kormos: Did they make their written reports?

The Chair: Thank you, Mr Kormos. I must move on.

Mr Jack Carroll (Chatham-Kent): I asked the Provincial Auditor this and he wasn't able to share the information with me. Can you give us a little history on the CPP project and when the idea was first approved that Comsoc would walk down this road of a CPP project? What was it hoping to accomplish with that?

Ms Herbert: If I can go to the last part of your question first, between 1993-94 actually, the ministry knew it had to do something around its technology system. By that, I'm just talking about CIMS and MAIN. It's a system that doesn't provide us with adequate information. We've struggled with underpayments and overpayments which the Provincial Auditor has several times documented. Quite frankly, it's a system that has a lot of Band-Aids on it and we're always very anxious about what's going to happen.

We knew from a technology perspective we had to do something. At that time, you have to remember, the system was much bigger. We had many more clients on the system. We were spending about \$3 billion more than we

spend today, which is about \$6 billion. We knew that we had to reform some of the business processes.

At the same time, the government of the day was looking at the resourcing costs of directly doing an RFP, which would be very expensive. In October 1994 there was a discussion at Management Board around piloting a CPP approach with social assistance. Our first and only go-ahead was through Management Board in October 1994. Basically, they asked Management Board staff to work with us around piloting a CPP project.

Mr Carroll: Did that direction come from cabinet, do you know?

Ms Herbert: Yes, Management Board.

Mr Carroll: You made reference that you've now engaged a third-party review to assess the benefits of the Andersen Consulting contract. Are you at liberty to share more information about who that third-party review is being conducted by and the terms of it?

Ms Herbert: The third-party reviewer is a gentleman by the name of Ray Hession. Ray was the vice-president of finance and admin and technology at CMHC for a number of years and was a federal deputy with supply and services.

We've essentially asked Mr Hession to do three things. I'm just culling them out. We've asked him to provide advice on how to ensure and measure the value of this service to the taxpayer, because as I said, the Provincial Auditor felt we hadn't demonstrated the value adequately enough. We asked him to review the auditor's findings and to provide advice on additional action needed. We also asked him to tell us how well we were or were not managing the contract, and if there are gaps that he finds, then to propose some strategies for the ministry in terms of contract management.

Mr Carroll: Mr Peters made a comment that his major concern in the CPP process was that the private sector participant in actual fact share an appropriate amount of the risk; rather than the taxpayer sharing the risk, the private sector consultant does. Can you tell us in layman's terms, because this is a difficult process to understand, what you perceive to be the ministry's risk, being the taxpayers, in this whole process and what you perceive to be Andersen Consulting's risk in this process?

Ms Herbert: I'll take a quick stab at this and then I'll ask Ann to talk a little bit about the benefits and risks.

At the present time, Andersen is upfronting all of its costs and may or may not achieve the benefits in the project. Clearly, that's a substantial risk for them as an organization. We have agreed that there's a common purpose here. For them, it is clearly to create a system with us that will return them their investment. For us, we are not upfronting the costs directly, as we would through a normal contract, and we are gaining their expertise and their business process expertise as a result. At the end of this, our hope is that we will have a business process and a technology system that will ensure that the system has created good customer service, that it has clear eligibility, that it reduces fraud and that it provides us with information for planning and policy purposes.

Ann, do you want to say a few more words? Jack has asked in layman's terms whether we can explain this.

Ms Szyptur: Also talking about the business arrangements for a second, what we tried to do in terms of the business arrangements was in fact balance the risk and rewards of both the ministry and Andersen Consulting. We did that through the benefit pool and the cost pool perspective, where interest costs etc from both the ministry and Andersen Consulting went into the cost pool. The benefits were shared by both the ministry and Andersen through the benefit pool-cost pool arrangement, based on the amount of costs that were going into the cost pool. So it's really a fair — looking at sharing those benefits based on the costs that were going into the pool. We did try to create that balanced approach of risk and reward. In the same way, the ministry did not get any benefits back, as Andersen Consulting did not, unless there were benefits that had been achieved.

Mr Carroll: One last question: You are the deputy minister of a ministry that over the last three and half years has saved about \$3 billion of taxpayers' money; obviously a very complicated ministry. The auditor's reports going back over several years have indicated the need for streamlining and updating of the administrative process. You also made reference to that. So we put a process in place to do that. As the deputy minister of that ministry, the one-time costs of up to \$180 million will only be achieved if we have annual savings on behalf of the taxpayers at least in excess of that.

Ms Herbert: That's right.

Mr Carroll: Having looked at what you've looked at and having been through this whole process and I know addressed many of the auditor's concerns, are you convinced that this is a good process on behalf of the taxpayers of the province?

Ms Herbert: I'm convinced that it was a reasonable approach to achieving the benefits we required. As I said earlier, we have a third-party reviewer in who hopefully will demonstrate that to the ministry and to others who have questioned the value of this contract, but I don't want to speculate or prejudice those outcomes.

1150

Mr Peter L. Preston (Brant-Haldimand): Was any money paid out to Andersen prior to results?

Ms Herbert: No.

Mr Preston: None at all?

Ms Herbert: No.

Mr Preston: All the money that Andersen has received has been based on positive results?

Ms Herbert: That's right.

Mr Preston: You talked about published rates. Published where?

Ms Herbert: Do you want to talk about the rates?

Mr Preston: Talk about the published rates.

Ms Szyptur: We've used the term "published rates" in the contract. What those mean is the standard rate that Andersen Consulting uses on a general basis. It's not published in the sense of —

Mr Preston: Why do they call them "published rates" then?

Ms Szyptur: I think that's just internal terminology that Andersen Consulting uses.

Mr Preston: It's a convenient term for saying, "It's open but we're not telling you," right?

Ms Herbert: It's an internal term that says that these are the rates they would quote if asked. But you're right, it is not a public rate published somewhere.

Mr Preston: How do we ask?

Ms Szyptur: There's a process that we deal with in terms of a time frame on an annual basis. Typically, Andersen Consulting's rates change as of September. Their fiscal year is September to September. At that point in time we ask if there are going to be new rates. They volunteer that information very often. What we get back is what the new rates will be if there are any changes. As well, we get a list of the staff who are on the project and what their new rates will be. So it's geared on an individual basis as well.

Mr Preston: Is the Provincial Auditor privy to these published rates?

Ms Szyptur: Yes.

Mr Preston: You do have the original rates, Mr Auditor?

Mr Erik Peters: We take the rates directly from the invoices sent to the ministry, as we would do on any contractual arrangement. They are contained in the invoices and therefore they are in the public domain.

Mr Bill Grimmer (Muskoka-Georgian Bay): My question relates to the auditor's comment on page 34 of this year's auditor's report, where he talks about the ministry not demonstrating the cost-benefit implications and overall value to itself of each proposal. In looking at the common purpose procurement, deputy minister's guide, and in working through the process of arriving at a common purpose procurement agreement, I note that when the parties get together, the vendors are to provide an oral presentation. Is anyone here able to tell us whether or not at that stage there was any discussion or analysis of possible cost-benefit implications and overall value to the ministry? Was that discussed at that stage in the preparation of the project?

Ms Szyptur: The vendors that were part of the oral presentations did make a presentation that focused on the value from a high-level basis. They also looked at costs, not in terms of this project specifically but looking at comparing it to other experiences they've had in other jurisdictions.

Mr Grimmer: When we get to the next stage where the vendor has been chosen and there's discussion about forming at least a memorandum of understanding, at that stage, from your recollection, was there any detailed discussion on the cost-benefit implications? We're talking about \$180 million at some point. At what point did you start to discuss the details of the costs and benefits?

Ms Herbert: In this process the original decision to proceed with a vendor is almost an agreement to proceed to then negotiate, which is different than a normal contract

where we would put out very detailed specs and then ask for bids on detailed specs. At the very beginning, when we choose a vendor, we then begin a process where we examine whether we think there is mutual benefit. As part of doing the examination of mutual benefit, one has to look at the cost benefit to each of the tasks in the life of the project. Otherwise a vendor would not sign with us. If they could not see that there were benefits to be achieved by work they might do, then there would be no reason for them to invest, as Andersen has done in this project. So there was a discussion about cost benefit.

Having said that, the auditor said — and I have this marked on page 34 of my audit report — that he feels we did not demonstrate the cost-benefit implications in a way that he could see value, which is why we've asked the third-party reviewer to look at that. It is difficult to do this work early on in a CPP. The auditor also acknowledges that in his own report, where he says that unlike the traditional procurement process, selections aren't chosen on

price, which is normally how we would do it. So this is a complicated procedure to establish value. Given that we were a pilot and learning as we went, I think the auditor's comment requires us to do the due diligence and have us demonstrate the value for money in this contract, which is what we're doing now.

Mr Grimmer: Mr Chair, are we planning on further reviewing the same material at the next meeting?

The Chair: It is my understanding that we are to meet this Thursday at 10 o'clock in an open session, as we are this morning.

Mr Grimmer: Because I have further questions that I'd like to pursue on that.

The Chair: Right.

The business of the day being completed, I will bring this meeting to an end. Staff, you are invited back on December 17 at 10 o'clock. Thank you.

The committee adjourned at 1157.

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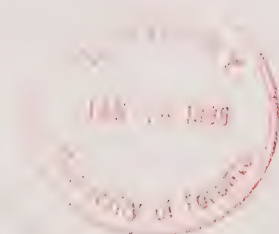
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Standing committee on public accounts

1998 Annual Report,
Provincial Auditor:
Ministry of Community
and Social Services

Comité permanent des comptes publics

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STANDING COMMITTEE ON
PUBLIC ACCOUNTSCOMITÉ PERMANENT DES
COMPTES PUBLICS

Thursday 17 December 1998

Jeudi 17 décembre 1998

The committee met at 1050 in room 228, following a closed session.

1998 ANNUAL REPORT,
PROVINCIAL AUDITOR:
MINISTRY OF COMMUNITY
AND SOCIAL SERVICES

Consideration of section 3.01, business transformation project/common purpose procurement.

The Chair (Bernard Grandmaître): Good morning, members, and good morning, Madam Deputy Minister and your staff. Welcome to the public accounts committee. We will continue our debate, if I can use the word debate — questions and comments.

Mrs Sandra Pupatello (Windsor-Sandwich): Mr Chair, could you have the deputy minister introduce her staff, please?

The Chair: Yes, would the deputy minister introduce her staff, please.

Ms Suzanne Herbert: I'd be glad to. Debbie Moretta is my executive assistant, Ann Szyptur is the acting project director for the BTP and Bonnie Ewart is the assistant deputy minister for social assistance and employment.

The Chair: Thank you. I'll give every caucus ten minutes to start with and then we'll simply rotate. We'll start with the opposition.

Mr Richard Patten (Ottawa Centre): Welcome back. Deputy, you had made a comment the other day — this is a little bit off, but I did want to deal with it — on the organization of the disability support program. What's your assessment of how that's working out? This is a program that you said Andersen was helping or working with you on to redesign.

Ms Herbert: I would say that we're still in transition. This is a piece of legislation that was introduced late last spring, a massive overhaul of what used to be part of welfare and family benefits, a really significant shift both in the legislation and the intent of the program, which is to take people who are disabled right out of welfare and put them on a totally different program — a significant change agenda. My guess is that we're about 18 months through transition, and while I think we've started off fairly well, it would also be fair to say that when you undertake a program as large as this one, there are bound to be some

wrinkles as you get the program up and running. Right now we're managing the old legislation, because we have to grandfather some cases, and we've got new legislation as we move from one to the other. It's quite complex. The intent of the program has been well received by the disability community, but we probably still have some procedural and what I would call operational implementation glitches going on.

Mr Patten: From my experience in my constituency office, the program is not working well. This is to be kind about it. It is a program that is totally centralized. It's taken the responsibility away from the social worker locally; they have no role in this. The assumptions of the program are totally based on somebody who is literate, English-speaking, maybe French-speaking — that's it. In other words, it leaves out the role of the local social worker. The person who is, let's say, a Greek immigrant working in construction is screwed, and this is a live example I'm talking about. It's totally based out of Toronto. The persons themselves have to apply in writing to a program in Toronto, send something to Toronto. The social workers are told that they're not needed in this program, and yet they must be part of the program; and they are part of the program, at their own peril. We get calls from staff on this.

I want to point that out. That program is not working well. It is very harmful and hurtful to a lot of people who are not qualifying in some of those mechanisms, like the health review etc. People are not being accepted on the program because they're told their file is not up to date, and the file they're talking about is that of the social worker who is initially dealing with the person. I don't want to take up too much time on this now because we're dealing with another — but if you want some feedback, that program is not achieving its objectives.

Ms Herbert: We've had some of that feedback from local offices. I'll just say that the process you're talking about is the adjudication process. People, once they're on the program, have a caseworker locally, and for entry to the program they have an OW caseworker. So there are local case workers. But what I might do is ask Bonnie to talk about what that process is. I know that we have some transition issues that we need to be watching very carefully.

Ms Bonnie Ewart: When you're referring to the social worker, I'm assuming that you're talking about the municipal worker. The majority of applicants to the

disability program usually come through the Ontario Works entry first, in which case they are on Ontario Works if they're financially eligible. Then the process of medical adjudication is, as you've described, a centrally driven process, whereby a package of medical and other layman's type of forms are sent to the applicant, who then gets them filled in through whatever resources they have available to them to do that in the community. It could be the social worker, their doctor, and it could be other individuals who can help them with these forms. The package is then sent to Toronto, as you're suggesting, and the medical adjudication aspect is determined. The client is then notified if they are or are not medically eligible, in which case the file gets transferred, for the financial side, from the Ontario Works program to the provincial office, the disability allowance. Then the person is assigned a provincial case worker for ongoing programming.

Ms Herbert: We had many, many complaints that the adjudication in the old disability system was inconsistent. Depending on which doctor you talked to and what worker you had, decisions were made that were not consistent and, individuals felt, not fair as a result of what they perceived to be the inconsistency of the local decision-making. So there is a balance there we need to achieve.

Mrs Pupatello: I wanted to turn back to the Andersen contract. I wanted to ask at what ministry level was there a decision to put the project team on a separate floor with a separate security code, which in the end resulted in the Provincial Auditor not having access. Who would have made that decision?

Ms Herbert: I'm not aware of the Provincial Auditor not having access to staff they wanted to see, so —

Mrs Pupatello: I understand that several requests were made of the ministry to access information. In fact, what we learned was that this was very unprecedented in terms of lack of access for the auditor.

Ms Ann Szyptur: Just in terms of general processes around security, if I can talk generally about that, all of the government building floors, both at Queen's Park and at 880 Bay, have security codes or card codes. This is not unusual in terms of where the business and technology integration —

Mrs Pupatello: Except that the Provincial Auditor has "unfettered access" to basically whatever they choose to review, so why would this have been different from any other ministry that also has security codes etc?

Ms Herbert: I would have to ask the Provincial Auditor — I don't know what the protocol is here — to explain the issue to me. As Ann has said, all of our floors for the entire ministry are coded for security purposes, either with a pass card or with a number punch. That's standard procedure for all of our corporate offices.

Mrs Pupatello: I understand that the standard procedure has never disallowed the Provincial Auditor to have access, because that is the case with all ministries as well, and lots of files have been updated.

In any event, I wanted to ask about the Coopers contract, which would have been the additional consulting that you would have hired. There were several revisions to

the original contract of \$165,000. You would have accessed this contract to give you the expertise to write the business deal, because it's such a new process to get involved in, this business procurement, whatever it's called. What did they give you in the end that ultimately was invoiced at \$285,000? Was there a report that was tabled from them? Was there a sort of side-by-side working through meetings with the eventual contract winner?

Ms Herbert: I'll ask Ann to talk about that contract and the process and the products from that.

Ms Szyptur: In terms of the products that we had produced, Coopers and Lybrand did not produce one report, and I think the Provincial Auditor had mentioned that. What they did produce was a full range of documents for the ministry to support the process, including evaluation criteria, negotiation positions etc. Additionally, the work that Coopers and Lybrand did with us included oral advice and participating in negotiation sessions with Andersen Consulting.

Mrs Pupatello: Is there a reason —

The Chair: I must move on, Mrs Pupatello. Ms Martel.

1100

Ms Shelley Martel (Sudbury East): Was Andersen Consulting required to provide references as part of being selected for this process?

Ms Herbert: Yes.

Ms Martel: Did they provide references?

Ms Herbert: Yes.

Ms Martel: Can you tell us who Andersen provided as references either in terms of governments in other jurisdictions or individual companies?

Ms Herbert: Yes, if you give us just a minute, because I don't have them right on the top of my head. My list: the New Brunswick human resources department, the New Zealand Department of Revenue, the Massachusetts Department of Social Services, the Montana Department of Social Services and the United Kingdom Department of Social Security.

Ms Martel: Did the ministry check these references?

Ms Herbert: Yes, we did.

Ms Martel: Can you tell me who in the ministry did that?

Ms Herbert: We have a procurement officer and I would assume that that person and the senior team would have checked the references.

Ms Martel: Did you check any other jurisdictions where Andersen had had projects but didn't provide those as references?

Ms Herbert: I don't believe so. The requirement is that one confirms the references that any group which bids provides.

Ms Martel: What happened to the references when the auditor asked for them?

Ms Herbert: The references were lost. ✓

Ms Martel: Do you know who would have been responsible for the references being lost or getting lost?

Ms Herbert: I would tell you that the references were lost in the process of the project. I had my own audit and investigation team go in to do a thorough search just to make sure that we couldn't find them. From my perspective, this is not good management and I was very concerned when it came to my attention. My audit and investigation branch told me that they could not find them. We did reconstruct them and reconfirm the references for the Provincial Auditor, but what we did not have and what we should have had were the original reference-checking documents.

Ms Martel: When did you become aware of problems with other Andersen projects in other jurisdictions?

Ms Herbert: One reads the press. One also knows that there are always problems with large technology programs. When we look at the breadth and scope of some of the activities that Andersen and other partners have undertaken, there are always delays in timing, new issues coming up. One expects to manage in a four-year project, or any other project of this size, rough spots.

Ms Martel: Deputy, we listed at least four serious problems with Andersen: one in Fairfax, Virginia, in 1996, the cost overrun was 150%; in Texas, in 1997, the cost overrun was 600%; in Nebraska, in 1997, a \$24-million cost overrun; in the UK, which I understand was one of the references that Andersen provided, last year the same computer that is being implemented here actually crashed. Do you have any concerns about your continuing relationship with Andersen given its track record in these other jurisdictions?

Ms Herbert: I can't speak to their track record in other jurisdictions. What I can speak to is the references that we checked and I can speak to our own experience. As I said in my opening remarks, the project has created \$30 million in savings and has produced products for the ministry that we're now using and are valuable to us.

Ms Martel: Deputy, the project is probably a year behind at this point. Does that concern you?

Ms Herbert: Clearly, we want the project to move on the timelines that it needs to. One of the aspects of a CPP, though, is that as you do the project you're developing new timelines and new risk management strategies all the time. So as you move through a CPP, it's my understanding that one can fully expect to have changes occur. As you move component parts of the project forward, you discover elements that you didn't think of at the beginning and you drop some other elements as you learn more. Part of the process of a CPP is an engagement over a period of time where you will see shifts in what the original plan at a high level might have indicated. Having said that, clearly we want to move forward with this project as quickly as we can.

Ms Martel: Can you tell me on what basis the ministry entered into a contract where the maximum payable amount of money is \$180 million? What are the grounds for agreeing to \$180 million when the vendor's original estimate was between \$50 million and \$70 million?

Ms Herbert: The CPP guidelines in 1995 clearly say that at the beginning of a CPP contract one cannot expect,

as you enter into negotiations, to know what the fixed value of the contract will be. The guidelines quite acknowledge that and the Provincial Auditor did in his report as well. What Andersen looked at was to provide in the discussions some sense of what large projects may cost. It was not an estimate of cost as we would know it in a fixed-price contract. As the negotiations took place and the scope of the project became clearer, the ministry negotiated a cap on the project that is only attainable if the project is successful in reaching those benefits.

Ms Martel: Isn't it true that the auditor, in his review after this was signed, said that he could find no basis whatsoever for the ministry arriving at a \$180-million maximum? Wasn't that what he said in the audit?

Ms Herbert: The Provincial Auditor indicated that we did not demonstrate to his satisfaction a business case, and in fact I said that in my speech on Tuesday.

Ms Martel: But we're still in the position of the ministry having negotiated a \$180-million figure. How could you have gotten there without any reasonable basis whatsoever? It's \$100 million more than the vendor itself came forward with at the time of the CPP being signed.

Ms Herbert: It was based on the scope of the project and estimated components of the project and the size of the benefits we hoped to obtain. As I said Tuesday, because of the concern about not being able to demonstrate this adequately from the Provincial Auditor's perspective, we have a third-party review looking at the structure and nature of the contract now.

Ms Martel: Isn't it true that the third-party review isn't due until February?

Ms Herbert: Yes, I expect to see it hopefully in February.

Ms Martel: Isn't it also true that if Andersen is going to work for you for year 5, a contract has to be renegotiated with them or signed by them or dealt with by them by the end of the second year, which would be January? In fact, the results of your review are going to come in after you renegotiate something with Andersen, is that correct?

Ms Herbert: During the period of the review, we have agreed that we will not make any decisions on the contract — that's both in terms of timing or any other changes — because we need the results of the third-party review before we decide what our next steps are.

Ms Martel: Are you telling this committee, then, that the \$180-million maximum payable may change and in fact be reduced?

Ms Herbert: I don't want to prejudice the outcome of the third-party review.

Ms Martel: What about the third-party review is different from what the ministry should have been doing all along in terms of managing this contract?

Ms Herbert: I think the obvious difference is that the auditor has indicated we couldn't demonstrate a business case. He didn't say there wasn't one there; he said we couldn't demonstrate it. Obviously, what the minister wants and what I would want as well is to have a third-

party review tell us whether this contract can demonstrate value or not.

Ms Martel: What are you basing your \$30-million savings on that you say Andersen has so far saved the taxpayers?

Ms Herbert: Ann, can you talk a little bit about, first of all, how the benefit pool is created and then a little bit about what the —

Ms Szyptur: I think we talked a little bit about it on Monday. We have both a benefit pool and a cost pool in terms of the business arrangements. The benefit pool is created using metrics or using measures that would look at savings that have been achieved to date. There have been two areas where savings have been achieved: change reporting and CPP. Let me talk a little bit about —

Ms Martel: Are those not the two areas that the auditor said the ministry was already undertaking that could not be attributable to Andersen directly?

Ms Szyptur: No. A CPP was just in the pilot stage during the period of the audit.

Mrs Pupatello: What was the first one? I couldn't hear it.

Ms Szyptur: Change reporting.

Ms Martel: The CPP and — sorry?

Ms Szyptur: And change reporting.

Ms Martel: — are two initiatives that are directly attributable to Andersen?

Ms Szyptur: The savings that have been saved to date are attributable to both the ministry and to Andersen Consulting.

1110

Ms Martel: But if the total cost pool is still higher than the total benefits pool, why was Andersen paid anything at all to date?

Ms Szyptur: The financial arrangements allow us to pay both the ministry and Andersen Consulting when benefits have been achieved in the benefit pool.

Ms Martel: That's not from the original contract, is it? The contracts says clearly that payments are only supposed to be made when the benefit pool is higher.

Ms Szyptur: I think there are actually two sections in the contract: section 5.4, which talks about benefits to be achieved; and section 5.5, which says that benefits may be paid out when there are benefits in the benefit pool.

Mr Jack Carroll (Chatham-Kent): There's some speculation about what is under the \$180-million cap and what's outside the \$180-million cap. A scenario was painted this morning about software. A question was asked, and I'm going to ask it to you. If Andersen designed their own software for this project, based on the agreement, that would fall within the \$180-million cap. If Andersen made a decision to purchase that software, based on the terms of the agreement, that would be beyond the \$180-million cap. I need an explanation of that. Also, does the ministry have any input as to what Andersen does in-house, contracts out and so on?

Ms Herbert: I'm going to ask Ann to talk about what's in and out of the contract, Mr Carroll.

Ms Szyptur: In terms of what's in and out of the contract, production support, help desk services and application maintenance over \$3 million a year are outside of the cap for Andersen Consulting. That also includes hardware and software purchases. In terms of the input of the ministry into this process, the ministry is a key partner in terms of the work we do. Andersen Consulting would have to demonstrate that the costs, their capacity to purchase the hardware and software, would be lower than ours. That would be demonstrated through the normal procurement processes that any ministry would be going through.

Mr Carroll: If they could demonstrate that their costs would be higher or lower than yours, I still don't understand whether or not the purchase of the software would be under or over the cap.

Ms Szyptur: If the costs were lower for us, for example, if it would be more expedient for the ministry to purchase that hardware, or less expensive, then it would form part of our cost pool rather than part of Andersen Consulting's cost pool.

Mr Carroll: So, either way, whether that particular issue was designed by Andersen or purchased outside, it would fall under the \$180-million cap?

Ms Szyptur: If it's development work, it would fall under the \$180-million cap. If it was developed by Andersen, absolutely it would be under the cap.

Mr Carroll: OK, if it was developed by Andersen, it's under the cap. If it's purchased by Andersen or by us, where does it fall?

Ms Szyptur: If it's purchased by Andersen, it falls outside of the cap for Andersen Consulting.

Mr Carroll: What input does the ministry have, then, to insist that a particular item be designed by Andersen rather than just becoming an additional cost to the ministry?

Ms Szyptur: That's an excellent question. Thank you for clarifying for me. The ministry is a key decision-maker in this process. We would look at several components in making those kinds of decisions as to whether it is overall less expensive or more expensive to have the project develop that software or have us purchase the software. In some cases, it might be faster and the product is already available, so we can get the product off the shelf rather than developing it ourselves. Those are the decisions we would have to make, understanding the timing and the costs around that development.

Mr Carroll: I'm still a little confused. If Andersen comes to us and says, "We're going to purchase this software," it then goes beyond the cap. That's a direct financial benefit to them, I would assume, rather than them designing their own software and it being under the cap. They can still bill up to the cap of \$180 million based on savings, but then they can take this hardware, which if they designed it themselves would be included in the \$180 million, and bill us extra for that. Where do we come in protecting the taxpayers on that particular issue?

Ms Szyptur: We are the decision-makers on that process. It wouldn't be a process whereby Andersen

Consulting made these decisions on their own, without the ministry agreeing to it.

Mr Carroll: The theory was put forward this morning that if Andersen put that proposition to us, we would have no alternative other than to agree to it. Would you subscribe to that?

Ms Szyptur: No, not at all.

Mr Carroll: We could force them to design this software rather than purchase it beyond the cap?

Ms Szyptur: Absolutely.

Ms Herbert: Mr Carroll, I'll just clarify the difference between hardware and software, just to draw the distinction, because in your question you used both those words.

Mr Carroll: I meant software.

Ms Herbert: OK. That's the distinction I was going to draw.

Mr Carroll: We've had a lot of discussion about the early initiatives agreement because the overall agreement on this dealt with no payments being made to Andersen until the savings demonstrated exceeded the cost pool. Am I correct in that interpretation? There was to be no money paid out to Andersen until the savings identified exceeded the cost pool.

Ms Szyptur: The contract allows for both, for benefits to be paid as they accrue, rather than waiting till the benefits outweigh the costs.

Mr Carroll: So the contract did not say that it would require mutual agreement for benefits to be paid at some time before the benefits exceeded the cost pool?

Ms Herbert: It was always part of the agreement that as benefits accrued, both parties could draw on the benefits to offset their costs. You have to have benefits accrue first. Then you could begin to draw on them, as they accrued, on a proportional basis.

Mr Carroll: But they don't have to exceed the cost pool?

Ms Herbert: No, they don't. For example, I think we've spent about \$55 million, the two partners on this project, and the savings have been about \$30 million. That money goes back to the two partners on a proportional basis. But because the benefits are not greater than \$55 million, Andersen and the ministry, to a lesser degree, are carrying those payments. So, for example, to make a payment of \$180 million to Andersen, we would have to have incurred savings beyond \$180 million, because the ministry also draws from the benefit pool.

Mr Carroll: Where does the risk, then, come for Andersen in the CPP arrangement if, as benefits are identified, they don't have to exceed their cost pool to get their money back?

Ms Herbert: First of all, they have contractual obligations about the product they have to develop, whether there are benefits or not. In theory, they could create the products the contract calls for, the replacement of CIMS-MAIN, the list of business process reengineering, but the benefit pool might only reach — these are theoretical figures — \$100 million when they may have expended more money than that in order to meet their contractual obligations under the agreement. There is risk there that

we may all have been wrong — I hope not — in assessing what the benefits would be from this project. They won't get paid unless those benefits occur.

Mr Erik Peters: They're already being paid, all along.

Ms Herbert: They're being paid from savings, from the savings pool.

Mr Peters: I don't understand that story.

Ms Martel: But we don't even know if the technology is working yet, and they're being paid, right?

The Chair: Mr Carroll, you still have two minutes.

Mr Carroll: Obviously there's a basic point of confusion here. Our understanding as a group here was that the agreement called for no payments to be made out of the benefit pool until it exceeded the cost pool. Is that a misinterpretation of this agreement on our part?

Ms Szyptur: There are two options within the contract. One clause in the contract talks about benefits exceeding cost. There's another clause in the contract that allows benefits to be paid and distributed once they have occurred rather than waiting until the benefits have exceeded the cost.

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Mr Carroll: Does that require mutual agreement?

Ms Szyptur: I don't have a copy of the contract in front of me.

Mr Carroll: Let's assume it does. Why would the ministry sign a contract, the basic tenet of which is that there would be no costs paid until the benefits exceeded the costs, and then in actual fact agree to do something totally different? What was the rationale that went into that decision to start paying out costs at a time when the costs exceeded the benefits? How did that discussion take place, and why would we do that?

Ms Szyptur: In terms of the cost pool and the benefit pool, costs that are included in the cost pool include things like interest costs, as well as the billings and our salaries etc. Those interest costs build up. So if we can accumulate benefits and help reduce some of the costs in the cost pool, there's in fact a benefit to the ministry in that it reduces the costs and the interest costs that are building up.

The Chair: I think the auditor would like to clarify what was just said.

Mr Peters: If I may help, it is in the agreement, and I'm quoting from page 41 of our report, which was agreed to by the ministry: "Unless otherwise agreed to, no distribution of savings is to occur until total amounts in the benefit pool exceed the total amounts in the cost pool. At such time, distributions to the parties will occur on a monthly basis."

So your question is quite correct, as to why the ministry agreed to earlier distribution. The answer I just heard is to save 5% interest on \$20 million. I am concerned about that, and I should mention that here, because you're paying \$20 million to save a little bit of money. Could you answer that? It will be a story.

Ms Herbert: With all due respect, I don't think that was the only reason. It was an attempt to share the costs, and share the benefits. I believe it is quite in keeping with the CPP approach and the CPP guidelines. It is an attempt

to recognize that a benefits pool was being created and costs were being incurred and a way of recognizing that a task the project had undertaken had been successful in creating savings for the government. It seemed to us a reasonable approach to share those benefits as they were accruing.

The Chair: Now that we all agree, we will carry on with another 10-minute round.

Mrs Pupatello: I wanted to go back to the aspect of the contract that involved the reimbursement costs which are outside the \$180 million. We asked specifically about this because, from what we see in terms of how it's worded in the contract, you will eventually pay up to \$180 million, based on savings to be achieved over the next four or five years etc up to \$180 million.

In addition, in the contract are external costs to be reimbursed, which include quite a lengthy list. The other day we asked, "What's not in the list?" I'm not certain what's not on it, because there are many things that are considered outside, to be reimbursed: hardware, software etc. The concern is especially in the area of software, which is much more difficult to put a value on.

My read of all of those things is that Andersen has no incentive to use internal resources from Andersen to provide you with the expertise required for the contract, because of that clause. The external reimbursable costs tell me that Andersen is better off, from a business perspective, to go outside and outsource software development. Even though you'll only pay the cost of the invoice for that item, you're still giving them no incentive but to go outside and purchase it and then hand it over to you, so Andersen essentially has no costs for development etc. Andersen essentially has an open door to outsource every aspect of what they provide to the government, because that will be 100% reimbursable according to the invoice they provide you. They achieve \$180 million just in the savings. So if over five years there is \$180 million worth of savings to the system, they'll get their full \$180 million, plus, potentially, if they are at a margin of, say, 40% cost to their markup, double or triple the amount, in terms of how this was written.

Ms Herbert: I'd just say a couple of things. One, I'm not prepared to speculate on costs or what may happen in the future.

Mrs Pupatello: There's no incentive for Andersen to develop anything in-house, because they're fully reimbursable to outsource every aspect.

Ms Herbert: I think we've answered the question. That's a ministry decision that would have to be made in the future. What the cap includes now are the essentials that are needed to change the social assistance delivery system and replace the mainframe system, the CIMS and MAIN system. In the future, if the government were to make a decision that it wanted to have one integrated system that included child care and social housing, those kinds of development costs would be outside of the present contract. So if the government made a decision that it wanted to use this new, reformed social assistance technology as a platform for building other technology

systems, those kinds of costs would be outside the \$180-million cap.

Mrs Pupatello: So you acknowledge that the way this contract was written, which was signed by the ministry, you could value it at literally \$1 billion that Andersen could make, because the software costs are virtually unknown and all of those things would simply be invoiced.

What you said earlier — I'm sorry, it was Ann, I believe — was that you still get to sign off on all of those decisions, but you're assuming the ministry has the expertise to make that decision. You hired a consultant to assist you in the development of a contract with Andersen, which began at a value of \$165,000, which had to be rewritten several times. Eventually you paid a consultant \$285,000 to write the deal and walk with you in the development of the Andersen deal.

The Provincial Auditor confirmed that they asked for months and months regarding the report from that outside consultant who helped to write the deal and they were given "not one piece of paper" about that outside consultant that would give them some sense if there was a value for the \$285,000 spent. They asked for months and months for proof of what that contract was for, and they received "not one piece of paper" so that they could see there was some adequate documentation to support the hours spent by the consultant, which is what is written in the auditor's report.

Second, you mentioned that you have all the expertise somehow to determine — that if Andersen came to you and said, "We have to develop this piece of software," there's someone in the ministry who's going to know that that's not the case, that Andersen can do it in-house, and therefore don't go purchase it outside. The truth is, that's the whole point of hiring Andersen in the first place: The ministry does not have the expertise to know that. The ministry didn't have the expertise to write the contract, so you hired a consultant to do that.

In fact, in the group that was in the ministry that dealt with Andersen initially, all of the staff who knew the deal left. The Provincial Auditor reported that to us and also said that the new staff that's left within the ministry has much less knowledge about the contract. So, we have ministry staff who have left the government. Even if they did have the expertise to determine that Andersen was making appropriate outside purchases, those people are gone.

Ms Herbert: You asked a lot of things there, so let me just see if I can sort them through. The answer to your first question is no.

The answer to the question that the auditor — assuming you're quoting him correctly — did not have access to anything the Coopers project developed: My understanding is that the auditor did see the evaluation criteria and looked at what was available; again, it wasn't a written report.

The question of the expertise in the ministry, if indeed the auditor has made a judgment call about the expertise in the ministry, I would have to disagree with. However, I would say that clearly one of the reasons we've engaged a

third-party reviewer is to give me, as the deputy head, an assessment of what we might need to do to better manage this contract. In hiring the third-party reviewer, in asking him to do the review, that is one of the outcomes we're looking for: to have advice about how we can better manage. In bringing that person in, we acknowledge that we should have managed this contract better.

Mrs Pupatello: Not just managing —

The Chair: I'm sorry, we must move on. Ms Martel, please.

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Ms Martel: I want to go back to the contract. Clearly it says, that unless otherwise agreed to, there will be no distribution of savings. So I would like to know, did Andersen request payment in advance? Is that why we're making a payment to Andersen?

Ms Herbert: The early opportunities initiative was an attempt to, as I said earlier, share the benefits and share the project costs. So when we began to look at achieving some of the benefits early in the project, which is what happened, it was an agreement that we would begin to draw from the cost pool, both the ministry and Andersen.

Ms Martel: How much have we drawn as a benefit, the ministry?

Ms Herbert: As I understand my notes, it's \$5.5 million.

Ms Martel: How much has Andersen received?

Ms Herbert: As of October, \$24.2 million.

Ms Martel: Andersen, \$24.2 million. That's a great sharing arrangement. We've got \$5.5 million, they've got \$22 million, and yet we have no idea whether their technology is going to work, correct?

Ms Herbert: What we have is \$30 million worth of savings based on business processes that they helped us put together.

Ms Martel: I would make an argument, I would even question whether those savings are directly attributable to Andersen or whether some of that had to do with what the ministry was already doing and a benefit the ministry would have already accrued. The auditor made that point in his report as well.

Interjection.

Ms Martel: Why don't I ask the auditor, because the ministry and the minister, in the House, have suggested that there is \$30 million worth of savings directly attributable to Andersen Consulting. Can you comment on that?

Mr Peters: I can comment on what we said in our report, that in the early opportunities initiative we could not find evidence that there was a benchmarking that clearly said, "This is attributable to initiatives that the ministry had already taken and this is attributable to initiatives or suggestions that the consultant had made to us." We could not find that benchmarking when we looked at this early initiatives opportunity under which these saved benefits are being paid to Andersen Consulting.

Ms Martel: So you would have no confidence, in essence, that a statement that \$30 million has been saved actually has any basis in any kind of documentation, proof etc.

Mr Peters: We found insufficient evidence that this is directly attributable to Andersen, yes.

Ms Martel: So I continue to say that we have a problem around accepting that \$30 million has really been saved. Put that aside. Andersen has benefited to the tune of \$22 million so far and Comsoc has benefited to the tune of \$5.5, when in fact Andersen didn't have to be paid at all. I want to ask again, did Andersen come to the ministry and say, "As a sign of you showing us good faith, we would like to receive payments now, even though the contract says we shouldn't until the benefit pool exceeds the cost pool and even though we have no idea whether this technology is ever going to work"?

Ms Herbert: The contract allows for us to do — we called it early opportunity cost payment as the benefits were accrued. I just want to be clear about that. The contract allows us to do this.

Ms Martel: Did you have a business plan for the early opportunities project?

Ms Herbert: Yes, task orders were laid out. For every task that is undertaken there are assigned task orders that indicate what the requirements are, what the products are and what the benefit arrangements are estimated to be. Ann, do you want to talk about task orders, generally?

Ms Szyptur: Yes, task orders are described in the contract in terms of the work that needs to be done. It's laid out, all of the pieces of the task order, including things like what staff will be on the task order, how many days of work we think it's going to take, what are the outputs, the activities and the deliverables as well as the sign-offs. So it's very clear in terms of ministry responsibility for specific sign-offs.

Ms Martel: The auditor reviewed the task orders, correct?

Ms Szyptur: The ones that were signed I think at that point, yes.

Ms Martel: And even in spite of doing that, the auditor said he could find no basis to pay Andersen what the ministry had paid because they didn't believe that was the work that was done. Is that correct?

Ms Herbert: You might want to address your question to the auditor. We clearly have a difference of opinion on the change reporting task order, where the auditor in his report feels that this was work that the ministry should have demonstrated could have been done differently, felt that the ministry could have done this work without Andersen's assistance, while also acknowledging that the ministry had been trying to do this work since about 1994 without success. My own view of the change reporting is that in fact Andersen's technical expertise in change reporting was what got us to finally implement a program that, while we knew we had to do it, we had been unsuccessful at doing for several years.

Ms Martel: Do you have any intention of continuing to pay Andersen even though the costs still exceed the benefit pool? Are you just going to continue to pay Andersen?

Ms Herbert: As benefits are accrued from the joint work between the ministry and Andersen, we will continue to share in the benefit pool.

Ms Martel: The problem I have, Deputy, is that the auditor just made it clear to the committee that they could find no basis for why some of these payments were being made. Yet you're telling us that the ministry is going to continue to make payments when documentation to show that Andersen actually did the work and payment should be made really doesn't exist. Don't you think that's a problem?

Ms Herbert: Again, I will go back to the fact that we have a third-party reviewer in looking at the business case and the value for taxpayers in this contract.

Ms Martel: You said that you thought the third-party reviewer was going to advise the ministry on how to better manage the contract. What about looking at what should be changed in the contract?

Ms Herbert: I believe the terms of reference, which I think we shared with the committee, talk about three basic products that we're asking for: advice on how to ensure and measure the value of the service to the taxpayer; review the auditor's findings and provide advice on additional action needed; and to assess the ministry's strategies to manage the CPP arrangement with Andersen Consulting and provide advice on additional actions needed.

Ms Martel: Is Andersen still continuing to bill the cost pool the hourly rates that were in place that were criticized by the auditor?

Ms Herbert: You will remember, I'm sure, that the minister talked about the issue of the rates and negotiating the rates. While the third-party reviewer is in we are not changing any of the present arrangements. We have a process for —

Ms Martel: So, if I might —

Ms Herbert: No, let me finish. We have a process for continually reviewing both the metrics in the project and the costs, and then we make adjustments on a regular basis.

Ms Martel: So is it clear to say that Andersen continues to bill you at 63% above the rates that were first published and first signed in the original contract? Is that correct?

Ms Herbert: Sorry, Ms Martel. Can you —

Ms Martel: Is it true to say that Andersen continues then to bill the cost pool hourly rates that are 63% above what was first established in the original contract? Is that correct?

Ms Herbert: Yes, that's correct.

Ms Martel: You're allowing that to continue. Even now, Andersen can continue to bill \$575 an hour for work that would have cost maybe 30% of that? Is that correct?

Ms Herbert: First of all, the third-party reviewer will advise us on the rates. That's part of what he's looking at, as he looks at the contract structure. In the meantime we have agreed that while the review is under way we should not alter any of the present arrangements, but we will

make adjustments that are required when the review is complete.

Ms Martel: Can you tell me why then the minister said on November 4, "I had...given directions that the rates be renegotiated, because they are too high and we want to change that, and we are indeed doing that"?

Ms Herbert: We were in negotiations with Andersen Consulting around the rates prior to the release of the Provincial Auditor's report. However, when the decision was made to bring in the third-party reviewer, at that point we felt that to alter without the benefit of a third-party reviewer's advice any elements of the contract would be to negate the purpose of the third-party reviewer.

Ms Martel: So what the minister said in the House was incorrect. Is that true?

The Chair: I'm sorry, I must move on. Mr Carroll, please.

Mr Carroll: Deputy, the contract stipulates that no costs will be paid until the benefit pool exceeds the cost pool, unless it's agreed to?

Ms Herbert: Yes.

Mr Carroll: So we now obviously have agreed to do it a different way than that.

Ms Herbert: Yes, which is allowable under the contract.

Mr Carroll: OK, and your indication to Ms Martel is that you're going to continue to do that, you're going to continue to pay.

The original flavour of the contract obviously was covered by, "No costs will be paid until the benefits exceed the cost pool." That was obviously the original intent of the contract. Have we signed a second agreement now that says we will now pay all costs up to the benefits, regardless? Have we made another deal somewhere?

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Ms Herbert: No, Mr Carroll. The clause in the contract which allowed us to do that was always there. Unfortunately, we don't have the contract specifics, so I can't quote you the section in the contract.

Mr Carroll: I guess what we're struggling with is why, as a ministry, right from the beginning we would override a basic tenet of the agreement, which is that no costs will be paid until the benefits exceed the cost, why we would override that right kind of out of the barrel and say we're going to continue to override that. We're struggling with that decision.

Ms Herbert: Yes. I can only presume here, but in the negotiations it was always foreseen that this would be an option. So it wasn't an override. There are both elements in the contract. It wasn't as if somehow we ignored a section of the contract. There was always an understanding that if there was an ability for a task to be performed more quickly in the life of the project that would ensure benefits, one could begin to draw on those benefits.

Mr Carroll: Does the option exist for the ministry to revert back to the original intent and to cease paying out any more costs until such time as the benefit pool exceeds the costs?

Ms Herbert: Yes, there is. On each task order there's that ability, on each separate task that the project performs. Just in response to your first comment, it's one of the issues that we've asked the third-party reviewer to look at. In the meantime, we are continuing to pay those costs because we've agreed not to alter anything until the report is ready.

Mr Carroll: OK. So that option exists for us, is what you're saying?

Ms Herbert: Yes.

Mr Carroll: The second thing: There's been a lot of question around identifying savings that we can attribute to Andersen. Is it your opinion that those savings attributable to Andersen can be specifically identified?

Ms Herbert: I think the auditor raised some good issues in terms of our metrics development and brought to our attention a couple of areas where overpayments had been made, and in fact we immediately adjusted those. We've now put a regular review mechanism in place to make sure that we're reviewing what we call the metrics decisions around how the benefits are accrued and how they can be charged to the pool. So we've done some further work as a result of the Provincial Auditor's report.

Mr Carroll: OK. We've heard some talk about the project being behind schedule. Obviously that's a concern, I'm sure mostly to you. Can we get it up to speed, do you think? Is it your opinion that the initial part was the toughest part and in actual fact we can now accelerate the process and get up to the original four-year agreement, or is that totally beyond the realm of possibility now?

Ms Herbert: Two comments I would make: Yes, it is a concern to me that we move very quickly. We are now at a vital point in the project in terms of developing the detailed business process and design. We have put the project on very tight time frames in order to make up for some delays. I would say that some of those delays were not anticipated at the beginning of the contract: the massive amount of change in social assistance, new legislation. The moving of part of the provincial caseload to the municipal government was not foreseen at the beginning of this contract. So there have been a number of decisions taken by the government that the contract and the staff then had to adjust to, which did create some legitimate rethinking and redesign work as a result of the size and scale of the reform. Having said that, though, it's important that we move quickly. Now that the high-level design is done, we now need to move very quickly through the detail design, and that's the work that's underway right now.

The Chair: Mr Young, two minutes.

Mr Terence H. Young (Halton Centre): My understanding from the auditor is that he was unable to find any evidence or any provision in the contract to make any payments prior to the benefits exceeding the costs. But it sounds to me like what you're saying is that there were in fact provisions to do that, that the contract left that open. Is that right?

Ms Herbert: I think Mr Peters has the contract with him.

Mr Peters: We read from our report. Just to clarify our comment, we said "unless agreed to."

Mr Young: So "unless agreed to" would leave it relatively open. I presume that was put in the contract to deal with situations that might come up, for instance, major changes that you just mentioned: the number of new jobs created in Ontario so the caseload went down; the provincial cases going to municipal; and other things that happened in the economy. I don't know if they could foresee the changes we made to take people who in some cases were in prison, still receiving welfare, which was an abuse of the system — and other changes as well.

Those were the changes that happened that made it necessary, I suppose, to review the contract on an ongoing basis. But on what basis did you start to pay money out? Was it for costs that Andersen could show they had paid out themselves or was it costs that could be considered profit on the contract? Did you have anything that identified that or broke it down?

Ms Herbert: A couple of comments and then I'll ask Ann to talk a little bit more about the details. The management of the CPP contract is ongoing review. It's very different than —

Mr Young: It's a partnership, it's a process.

Ms Herbert: It's a partnership and it's a process. That's exactly right. You can see by the new guidelines that Management Board have just approved that they acknowledge the importance of good contract management, continual negotiation and review, because the world changes in such a lengthy partnership process. The scenario that you portrayed is quite correct, that you're continually reshaping as the world you're working in is changing around you in that partnership relationship.

In answer to your more detailed question, I'm going to ask Ann to spend a few minutes.

Ms Szyptur: I apologize, but I've lost track of the question.

Mr Young: What I'm trying to understand is, what was the money paid to them for? I'm well aware that a contract like this is a process — all contracts, in fact. It's a relationship. There's the distinct possibility the relationship can break down. Then nobody wins.

Ms Szyptur: Right.

Mr Young: But what I'm wondering is, would it be fair for one of the partners to say, "We did have all these benefits and our costs did go down, but it wasn't due to what you did, therefore we're not paying you anything"? Or was there this ongoing conversation where they said: "We understand that. We're not trying to get out of the deal. We want to work with you, but we have put out \$20 million in costs that we can itemize." Did they do that and is that why they were given those costs? I'm trying to understand that.

Ms Szyptur: Yes. Those items were listed in the cost pool both for the ministry and for Andersen Consulting. Those expenses were in the cost pool and the benefits were paid out based on metrics that had been developed. We had a methodology in place that would look at, for example, in change reporting, the number of terminations

that had occurred to date and the savings related to those terminations. We would calculate then the total amount. Those are the benefits that would go in the benefit pool and we would pay out against the costs in the cost pool.

The Chair: Members, we have two motions to deal with. The initial motion which was moved by Ms Martel has been changed. Would you like to withdraw your motion and reintroduce the new one?

Ms Martel: I'd like to raise a point of order, Mr Chair: Is there some reason we can't continue with the questioning?

The Chair: Deal with the motion and then, if there's time left, we can continue with our questioning.

Ms Martel: I'm going to withdraw the whole thing because, based on what I've heard here this morning, I don't think this contract should continue in its current form and what the auditor proposes probably won't fix it, in spite of his best effort to.

The Chair: So you're simply withdrawing.

Ms Martel: Yes, I'll take it right off.

The Chair: Withdrawn.

Mr Carroll: Mr Chair, is it possible for somebody else to make that motion?

The Chair: That's up to the members. You can move it.

Mrs Pupatello: You're welcome to move it.

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Mr Carroll: I move that the ministry take the necessary corrective actions to ensure that:

No benefits are paid to Andersen Consulting unless total benefits exceed total costs for the entire project as stipulated in the common purpose procurement agreement;

Only incremental benefits clearly attributable to the business transformation project are credited to the benefits pool;

All applicable ministry costs are charged to the cost pool. In addition, every effort should be made by the ministry so that ministry costs are charged to the cost pool on a comparable basis of Andersen's published rates;

Steps are taken to bring the project back on schedule;

All contract provisions are enforced.

The Chair: Comments and debate?

Mrs Pupatello: Just one quick question. "Comparable basis of Andersen's published rates" indicates that the rates would remain as Andersen's published rates and that's how they would be paid. Is that what the auditor intended with the rewrite of the motion?

Mr Peters: Whatever is negotiated, that the two rates be comparable. In other words, if Andersen is negotiated down, then the ministry on a comparable basis would go down, as long as the elements are in. The point is really, for example, "including direct costs, allocations of overhead and profit margin." That remains in, so the elements remain the same. The rates may differ.

Mr Carroll: They remain comparable.

Mr Peters: So they remain comparable, that's right.

Mrs Pupatello: I just wanted to be clear that the members of the government would be voting in favour of all contract positions being enforced given what we now

know after this discussion, the wide-open door to items like "external costs" with no caps etc. Is that what the government would be enforcing? Is that what you would agree with? Given our concerns about a whole myriad of issues in terms of having a consultant paid to have struck the deal in the first place, with so many open doors, I don't know how the members are going to be in a position to approve this motion today.

Ms Martel: I want to say to the auditor that I appreciate what you're trying to do with respect to the motion that's put forward, which is to, as much as possible, deal with what is a bad situation and make it a little bit better by at least trying to tighten up the administration of the contract. However, I've listened clearly to some of the answers that I've received from the ministry today and I am not at all confident that that will go any way at all towards resolving the problem here. We didn't get to the question of the management team and who is on it and what they will actually achieve. It's one question I would have liked to have gotten to because it's not clear to me that the current management team will be capable of managing this project either.

I continue to have some very serious concerns with the actual stipulations and provisions in the contract itself, not just the management of this. I am extremely concerned that, as far as I can tell, there still continues to be no documentation, no basis to support the \$180-million maximum fee payable, no information to support that there are actual cost savings and those savings are directly attributable to what Andersen has done versus to what the ministry might have been doing. You said that yourself in your report.

I continue to be very concerned that the minister, on the one hand, in the House said that the outrageous hourly rates were being renegotiated as we spoke in the House on November 4. We discover today that all of the provisions of the current contract remain in effect until a third-party review is done. So they continue to bill the pool outrageous rates that you yourself said are 63% higher than the rates that were first agreed to in the original contract.

I am extremely concerned that we are having a third-party review at all. You made your report in May. The ministry had the benefit of seeing it. The ministry agreed with what you had to say. The ministry itself put down in the report a number of things that it was going to do. As far as I can tell, if the ministry even started to do what it agreed and said it would do in May, we wouldn't even need a third-party review. I am very concerned about the reasoning behind the third-party review, why it's necessary. It seems to me that it expresses a lack of confidence in what you've found and what your recommendations were, and I don't like that tone of it.

As far as I can see, during the whole course of this third-party review, all we do is let Andersen milk the taxpayers even more, for goodness' sake. They continue to bill at outrageous rates and we continue to let this happen.

I am withdrawing the motion because I am not satisfied with anything I heard today. If anything, I am more

concerned than ever about the details, about what has happened, about whether or not the ministry can manage this, about the basis upon which decisions are being made, and the lack of documentation and supporting evidence to show why those decisions are being made.

At the end of the day a third-party review, which I think is completely unnecessary, may result in some changes to the contract and may not. I just think the whole thing is a complete mess; it has been from the beginning. It's not just the management that's been a problem, it's been the details. Unfortunately, the motion as it stands cannot get at the real issue, to my mind, which is some of the outrageous details of this contract and how the taxpayers are not getting any value for money for this whole thing.

Mr Bill Grimmer (Muskoka-Georgian Bay): I have some concerns as well similar to those that have been raised, although perhaps from a slightly different perspective.

I think we're conducting a bit of a third-party review here. I see some merit in there being a third-party review to look into some of the concerns that have been raised here. Given that there is a third-party review going on, I'm a little concerned about the motion because I too am concerned that the contract would just continue to carry on the way it has been carrying on in the interim until either something changes or until perhaps the auditor reports back to us again in June.

I'm at a bit of a loss on what to do with the motion. I think we should be taking into account that there is a review going on. I wish the ministry was getting a report back sooner on that third-party review. I certainly think there's a need for a third-party review. Who knows, maybe the third-party review will be even stronger in its recommendations than the auditor has been or than we are feeling today.

I don't think I can support the motion that my colleague has put forward, but I'm looking for suggestions from other people on what we do in the meantime with some of these concerns that have been raised today.

The Chair: Further debate or comments?

Mr Grimmer: Could I ask the auditor to try to give us some direction?

The Chair: By all means.

Mr Peters: The Chair has given me permission to speak to that. In dealing with the motion, yes, indeed, there were details. If I really had an option, I would say that the first part of the motion is the one that is closer, that "no benefits are paid to Andersen Consulting unless total benefits exceed total costs for the entire project as stipulated in the common purpose procurement" potentially remains. The other ones are getting a little bit more into the detail management and there may be comments on that.

The reason I'm making that motion is because there's another theoretical possibility here. At the end of the contract, at the end of the project, what happens if the benefits do not exceed the costs? Can we then get all the money back that we paid to the consulting firm? That's

theoretical. So they receive really what one would call a contingency fee. This is an area of concern to me. Out of the motion, the other ones hopefully will get fixed.

If I could make another comment, because of the timing of the issue, I would urge you to really consider the second motion, that is, an early report on corrective action at some later stage. I would be quite prepared to say let's not get into an attempt by this committee of micro-managing this contract beyond that one thing, to stop paying these guys until you resolve the issue, but that is the second motion, that we will have access or a requirement to report earlier than we normally do on the corrective action. Our normal time frame would be by the summer of 2000 to follow up on this. That's my comment. I think we're running out of time.

The Chair: On your motion, Mr Carroll.

Mr Carroll: Mr Chair, in view of the comments just made by the Provincial Auditor, which I respect, and in view of the reminder that there is an ongoing third-party evaluation, I withdraw the motion.

The Chair: Thank you. We can deal with motion number 2. I need a mover.

Ms Martel: I move for the committee that the Provincial Auditor report by June or July 1999 on the corrective action taken by the ministry on the administration of the Andersen agreement.

The Chair: If I may ask, that the Provincial Auditor report by June or July 1999 to whom?

Mr Peters: To the committee.

Ms Martel: To the public accounts committee.

The Chair: Comments?

Mrs Papatello: I am supposing that we will support this motion. My quick question is, how much sooner is that than typical?

Mr Peters: More than a year. We would report normally in a two-year cycle and that would mean we would normally report on the action taken on this in the fall of 2000.

Mrs Papatello: Also, by having withdrawn the first motion, the government is then consenting to continue to pay as they are currently paying, because instead of the motion being rewritten to make any kind of change to that, you simply withdrew it. So the continual benefits will be paid. There will be no change to what's happened since the beginning of the year in terms of the payment schedule etc. The government is now acquiescing to just continue the payments by simply withdrawing the motion as opposed to rewriting?

The Chair: That's right.

Mr Grimmer: I just had a comment about the June-July thing. We've been pretty specific on this committee about dates. I would say the end of June, because we're going to be breaking for the summer in July.

Mr Peters: It was offered as an option.

Mr Grimmer: Does the mover accept that as a friendly amendment?

Ms Martel: Mid-June. That way we can get a chance to see it before we actually recess, if that's when we're sitting.

The Chair: Did you say mid-June?

Ms Martel: Yes.

The Chair: Is mid-June agreeable?

Ms Martel: Can I say why I've suggested that? Maybe it will help. If the House is sitting, we would normally be sitting in this committee until the end of June and we would be making decisions at the end of June about possible summer sessions. So I am suggesting that we ask for a date in mid-June so that if we actually are here, the committee or the subcommittee can have a chance to review it and then set some date, if we need to have the ministry back, for July.

The Chair: We need to vote on motion number 2, with the addition. Would you read your motion, Ms Martel.

Ms Martel: I move that the Provincial Auditor report to the public accounts committee by mid-June 1999.

Mr Carroll: Mr Chair, may I make one more comment? My concern with this time frame is the fact that the ongoing review the ministry has committed to, a report which is not expected — the end of February I believe is the deadline. By the current statement they've made, part of the condition of that third-party review is that no

changes would be made to what's happening now. I'm not so sure what the auditor would find. He won't find any change in February, I would assume, and that only allows March, April and May. Do the time frames make any sense in view of the third-party review which is ongoing and is not scheduled to be completed until the end of February? I'm concerned about that time frame. Are we just setting ourselves up for failure?

Mr Peters: I certainly thought it would be worthwhile for the committee to hear back as to what was being found and what was being done about it at that particular stage. It does give four months. It would be an interim report.

Mrs Papatello: Chair, may I ask if we're going to vote?

The Chair: Yes. Let's deal with this motion. No further comments? Let's take a vote, ayes and nays. All in favour? Against? I declare the motion passed.

We will adjourn. I am told that no time has been allocated for us to sit in January or February, so I want to wish you well and thank the ministry.

The committee adjourned at 1205.

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